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PHYSICIANS' SYSTEMS

by

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A Short Course of Business Instructions for the Doctor and his Assistant, Divided into Three Main Sections. Namely:—

ACCOUNTING
COLLECTIONS
INCOME TAXES

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CHAPTER I

INTRODUCTION

¶1. The Necessity of Keeping Records

To the old-time physician anything suggestive of bookkeeping implied a lot of unnecessary working with figures, which, when they were obtained, did not mean anything. They therefore limited themselves to merely keeping some sort of record of the amounts owing to them by patients, and made no pretense of keeping anything approaching an accurate record of their Income and Expenses. This attitude has largely changed however, and the up-to-date physician realizes that it is just as necessary for him to know the business end of his profession, as it was for him to study the profession in the first place. Possibly the Income Tax Laws have had something to do with this, but be that as it may, the attitude of the doctor has changed from that of even ten to fifteen years ago. And rightly so, because unless the records are kept, and kept in such a way as to be susceptible of proof, not only the preparation of the income tax returns, but any other information which is dependent upon a knowledge of the facts, is open to question. As a matter of fact nobody does entirely without records of some sort, primitive though those records may be. The reason for this is the inability of the human mind to remember a multiplicity of transactions correctly. As therefore, it is absolutely necessary that some records be kept—surely it is only the part of common sense to keep these records in such a way as to

enable a proof of their correctness, particularly when no more work is really involved by so doing. Rather there is less work involved, because by insuring accuracy day by day as work goes along a lot of searching for errors is eliminated, and considerable time and worry saved.

¶2. What Bookkeeping Is

From time immemorial man has used symbols as a convenient way to designate various things. Paintings are symbols, even the printed word is a symbol, and "Account" is nothing but the symbol of bookkeeping. They are kept in books merely for the sake of convenience, and do not have to be kept that way. For example, vision to yourself a series of shelves built into "cubby-holes" around the wall, with a separate cubby-hole for each transaction, or series of the same transaction; and every time any transaction occurred a memorandum was put into its proper cubby-hole. Each cubby-hole would then contain a complete record of the transactions affecting it. This way, however, would not only prove a nuisance but would entail a lot of work. Therefore books were devised and in the place of "cubby-holes," "Accounts" on ledger sheets were used. The columnar form is a further development of the "Accounts" on ledger sheets as it gives a "column" in the place of the separate ledger sheet for each of like accounts. Each "Column" is therefore the "cubby-hole" of the above illustration. The principle, however, is exactly the same, and not one bit more complicated. All there is to bookkeeping is to see that all transactions are properly placed in their correct "cubby-hole" or "account."

¶3. When in Doubt as to Which Account to Enter Any Transaction

Sometimes there is a doubt, however, as to what "account" different transactions should be entered, and one of the purposes of this book is to give the correct account in which all the ordinary transactions should be recorded, and to explain the underlying principles so that a little thought will show where any unordinary transaction should be entered. If this doubt exists, a good way to do is to take a piece of paper and write down what actually happened step by step. In this way the danger of overlooking some part of the transaction, which is one of the pitfalls of bookkeeping and responsible for more errors than anything else, can be avoided. Do not try to visualize a complicated transaction in its entirety, because in this way you are almost sure to overlook something. Bookkeeping is the art of keeping a detailed record of transactions of business as they occur. Therefore the only way to do when doubt exists, is to write these details down, just as each detail of the completed transaction happened, step by step. Then it can be seen what entries should be made on the books.

¶4. Example of Reasoning Out a Transaction

Suppose that a note is received for some account and is taken to the bank and discounted, and the money received therefor, less the amount of the discount. Then later the bank returns the note as uncollectible, but with part paid on it, and requests that the balance be returned them under their agree-

ment. Three distinct things **have** happened, and a fourth probably **will** happen. The things that have happened are:

1. A note, (which as a negotiable instrument is self-supporting) has closed out an open account in the Patients Ledger.
2. Money has been borrowed on the note by using the note as collateral. This is true in every case except where endorsement is made "without recourse."
3. The note has been returned and the money borrowed on it; less any payments by the maker; has had to be repaid.

What probably will happen is:

If the bank cannot collect the note, the doctor will also fail to do so, and the note will have to be taken off the books.

After reasoning the matter out this way, it is seen what entries would have to be made on the books under the "Accrual" method or under the "Receipts and Disbursements" method. These two methods, Accrual and Cash, are explained in detail in Chapter 2.

¶5. Under the Accrual Method

Entry 1

When Note Is Accepted

Charge Notes Receivable_____	\$100.00	
Credit Accounts Receivable_____		\$100.00
With the total amount of the note.		

(This is because a note has been received from the debtor and therefore he no longer owes his open account but only owes the note.)

Entry 2

When Note Is Discounted

Charge Cash (actual amount received)_____	\$95.00
Charge Discounts (amount retained by bank)_	5.00
Credit Notes Receivable Discounted_____	\$100.00
(With full amount of note)	

Now cash has been received for the note but a charge has been made which must be reflected in the expenses, and therefore an expense account called "discounts" is charged with the amount that the bank retains. Also as the bank insists that the doctor endorse the note, and by this endorsement he agrees to stand back of the note if the maker does not pay it, it is better accounting to credit "Notes Receivable Discounted" rather than "Notes Receivable." This is because what is known as a contingent liability is set up. That is the liability is contingent on the maker not paying, but nevertheless, if he does not pay it, then the endorser must.

Entry 3

When Note Is Returned

Charge Bad Debts_____	\$ 40.00
Credit Cash _____	\$ 40.00
(With amount of check given to the bank)	

(This is because, under the accrual method, the charges to patients have come into income as and when the charges were made, and also because if the bank cannot make collection it is reasonably certain that the note is bad, and therefore must be charged to expense against the income.)

Entry 4

Charge Notes Receivable Discounted_____	\$100.00
Credit Notes Receivable_____	\$100.00

With amount of note, as this amount is still on the books in both accounts, and must of course be taken out as neither the asset nor the contingent liability any longer exist.

(This however, does not mean that all effort to collect should be given up if there is any possibility at all of collecting it, but it does mean that it will probably be very hard to collect, and it is better to take it out of the income and then if collection should ultimately be made, credit the amount collected to an Income Account titled "Bad Debts Collected.")

If desired, the account of Notes Receivable Discounted could be eliminated and the credit in Entry 2 made direct to Notes Receivable. Then Entry 4 would be unnecessary. As already stated the object of having the entry made to Notes Receivable Discounted is because the doctor is an endorser of the note, and as such, is liable to the bank if the maker does not pay. Under correct accrual accounting methods therefore this liability should be reflected on the books and not lost sight of, as is the case where the note is taken off by a credit direct to the Notes Receivable account. If this latter method is followed then certainly a notation should be made to the effect that the note has been discounted, the date it was discounted, and who it was discounted with. And this notation should be made on the individual's account in the Patients Ledger, or if a note ledger is kept, then in the note ledger.

¶6. Under the Receipts and Disbursements Method

Only the following entries would be necessary:
When note is accepted

Merely a notation on the individual account of the maker in the Patients Ledger that

a note has been received, giving the date of the note and when it is due.

When note is discounted

An entry on the individual's account to the effect that this note has been discounted, and who it was discounted with, and the date it was discounted.

An entry will be made in the Cash Journal which will

Charge Cash	\$ 95.00	
Credit Fees		\$ 95.00

With the actual amount of Cash Received and credit also the individual account in the Patients Ledger.

This is because under the Receipts and Disbursements method no fees are brought into Income until they are paid. Charges to patients merely being made to their respective accounts but not brought into income until the money is received.

When Note is returned

Charge Fees	\$ 40.00	
Credit Cash		\$ 40.00

With actual amount refunded to the bank.

This is because the entire amount that was received from the bank was brought into Income by the former entry, and therefore when some was not collected that much must be taken out of income. If desired, and there is thought that there would be any possibility of obtaining collection at some later date, the unpaid amount can be restored to the Patients Ledger. Under the Receipts and Disburse-

ments method doing this would not bring anything into income. As explained in the next chapter, the Receipts and Disbursements Method of handling Income and Expenses does not record the transactions in such detail as does the Accrual Method, but it is the author's opinion that it will prove itself much the more satisfactory in the great majority of cases.

Under any plans similar to that of the **Medical Finance Company** spoken of in the Collection Section, the amount received will be brought directly into Income under either "Accrual" or Receipts and Disbursements Method, as the Doctor is not an endorser in such cases.

CHAPTER II

BOOKKEEPING METHODS

¶7. The Two Methods

There are two methods of keeping books recognized everywhere as correctly reflecting income, if either of these methods are followed consistently. These two methods are the "Accrual" method and the "Receipts and Disbursements" method. The Accrual method brings into Income the fees as they are earned and the expenses as they are incurred, without regard to the dates of payment, and is the method usually used by business houses. The Receipts and Disbursements method only recognizes Cash, and therefore does not bring the fees into income until they have been received in cash, and likewise does not take into consideration any expenses until they have been paid in cash. This latter method follows the old adage that "A sale is not a sale until the cash is in the drawer."

¶8. Advantages and Disadvantages of the Accrual Method

The Committee on Accounting Terminology of the predecessor of the present American Institute of Accountants, namely the American Association of Public Accountants, gave the following definitions of "Accrual," and coming from this source they can be considered authoritative as far as the accounting meaning of the word is concerned:

Accrue

1. To accumulate automatically through lapse of time.
2. To set up or record a debit or a credit automatically accumulating through lapse of time.

Accrual

1. The act of accruing.
2. That portion of an accruing account not yet due, applicable to the accounts of the period under consideration.

In other words this means that payments made for expense accounts might have to be divided, as part might apply to one period and part to another. Or that expenses which had not been paid, or even invoiced, might have to be entered on the books by means of a journal entry. This method also brings into income all charges to patients as and when the charges are made, and if it is ultimately found that the amounts cannot be collected then they must be "written off," that is the accounts receivable account in the General Ledger, and the individual account in the Patients Ledger must be credited and an expense account, such as "Bad Debts" must be charged. In other words, under the Accrual Method, all income and expenses must be allocated to the period to which they apply.

The Advantages of the Accrual Method, therefore are, that each period is correctly burdened with its own expenses and income, and, by the use of controlling accounts in the general ledger, a more ac-

curate statement of Assets and Liabilities and Income and Expenses can be drawn off.

The Main Disadvantage, particularly from the standpoint of the Physician, is that more bookkeeping, and a greater knowledge of bookkeeping, is required under the Accrual method than under the Receipts and Disbursements method. To the accrual method it makes absolutely no difference whether it is Cash or other asset, such as a note or Account Receivable, that is received, profit is realized the moment the transaction is completed and a cause of action has arisen which can be legally enforced against the debtor. Detailed instructions for the Accrual method of bookkeeping are given in Chapter VI.

¶9. **Advantages and Disadvantages of the Receipts and Disbursements Method**

Under the Receipts and Disbursements method no fees are brought into Income until the account is received in Cash. This eliminates the necessity of having to write off any of the accounts to "Bad Debts" and therefore also facilitates the preparation of the Income Tax Returns, as this item, which is one always open to controversy, never appears on a return. The only income reported is the cash which is actually received. In the same way no expenses are taken into consideration until they are paid. A considerable amount of bookkeeping is therefore saved and a lot of detail work eliminated.

The Disadvantages of the Receipts and Disbursements method as proposed herein, are principally, that by this method there is no "Control" of the

Patients Ledger, that is an account posted in totals to the General Ledger showing the net balance of these Patients Accounts, which net balance should agree with the sum total of the different individual accounts in the Patients Ledger. This is because under this system there is no General Ledger used, and also because the fees are not brought into income as and when the charges are made to the individual patients, but only as cash enters in. In the same way expenses do not appear on the books until they are paid, therefore the Receipts and Disbursement Method does not as accurately reflect the income of each separate period as does the Accrual Method. Over a long enough period, however, this Cash Method will just as correctly reflect the income as will the more complicated accrual method, as far as Physicians are concerned.

¶10. Receipts and Disbursements Method Recommended for Average Physician

One of the main reasons that the Cash method is recommended for the Physician is the fact that there is a certain amount of charity work which he can hardly avoid, and often he does not know that the case is to be a charity one when he accepts it. He therefore makes his charges in the ordinary way only to find out later that he is absolutely unable to make collection. Under the cash method, when the charge is made any entry except to the individual account is unnecessary, and therefore his "Income Account" is not misleading him by having in it "Fees" that are not really income. While both methods are shown herein, and detailed instructions

are given for both methods, so that each individual can choose for himself which method he prefers, still the author is strongly of the opinion that the Cash Receipts and Disbursements method complete, will prove the most satisfactory in 99% of the offices. In order to further assist each individual physician in making his own decision, the main differences between the **two methods may be summarized as follows:**

Receipts and Disbursements Method

No General Ledger Necessary (as Balance Sheet Accounts, that is the Assets and Liabilities, are not carried on the books as controlling accounts).

Only Cash Received is taken in as Income.
Only Cash Paid out is taken in as expenses.
Simplicity, as Cash is the only real factor.
No Bad Debts to keep record of.

There being no General Ledger, no monthly Trial Balance is required.

Accrual Method

A General Ledger, that is a ledger carrying all the accounts in totals is required.

All charges are taken into income as and when the charges are made.

All expenses are taken in as and when the expenses are incurred without regard to payments.

Greater bookkeeping knowledge required.

Bad Debts, that is accounts found uncollectible, must be susceptible of proof.

Monthly Trial Balance, that is a run of all the Debits and Credits either in totals or in bal-

ances, of the General Ledger is necessary in order to prove that the General Ledger is in Balance.

Collections can be pressed just as enthusiastically under the Cash method as if they had already been brought into income under the accrual method, but the danger of thinking that earnings are greater than they are is minimized. It is for the reason, therefore, that the author believes that the Cash method is much better adapted to the Medical Profession in general, that the detailed instructions for this method are explained first. If it is decided to use the Receipts and Disbursements method, it is advised that Chapter VI, "Accrual Method" is not even read, or at least until such times as the Cash Method is thoroughly understood. This will avoid the danger of getting "mixed up" and having part of one system and part of the other, which condition exists in many offices, and not only in Physicians' offices, but in business offices as well.

CHAPTER III

RECEIPTS AND DISBURSEMENTS METHOD

¶11. The Cash Journal Detailed Instructions

What is commonly known as the "Receipts and Disbursements Method" of bookkeeping, means Cash Received and Cash Paid Out only. In other words Cash is the only recognized factor and nothing is brought into the general accounts, that is, the Income and Expense Accounts, until after Cash has entered into the transaction. Therefore while the charges to the Patients are posted to their individual accounts in the "Patients Ledger," as explained under the caption of "Patients Ledger" in the next chapter, still the amounts so charged are not recognized as Income until the cash is received. The main point to get clearly in mind therefore, in keeping books on the Receipts and Disbursements Method is that **everything** shall be done on the cash basis, and not half on the cash method and half on the accrual method, which is what happens if charges to patients are brought into income as and when made, but the expenses only as they are paid, or vice versa. Therefore keep the thought clearly in mind that under the Receipts and Disbursements method, Cash **must** be received or paid out before any entry whatsoever is made in the Cash Journal.

¶12. Starting Cash Journal

When starting the Cash Journal just enter in Column 4—Cash Receipts, Deposits—the amount of cash on hand and in bank, and enter the same

amount in Column 10—Sundry Personal Credits. This is for the reason that if this is not done then the Daily Cash and Bank Balance, Column 6, which is the difference between the Receipts and the Disbursements, would not be correct. For the same reason it is essential that the reconciliation of the cash and bank, as explained under instructions for Column 6, be made before any figures be put down in the book. After being sure the amount is correct, the figure will then be entered in Column 4 and Column 10 as already stated.

¶13. Balancing

The Cash Journal illustrated on the insert between these pages is the only book in which the Income and Expenses are recorded under the system explained herein, and is made in columnar form, that is a separate column is provided for series of the same kind of transactions, because this method is a time saver, eliminating as it does the necessity of detailed postings to another book. It is so designed that a proof can be had of the correctness of every entry, as and when the entries are made, because each line should balance, and if each line balances then each page must balance, and if each page balances then the totals at the end of a period must balance. By each line and each page "Balancing" is meant that:

The sum total of the amounts in the following "Charge" or "Debit" columns, namely:

Column 4. Deposits, Cash Receipts.

“ 9. Personal Drawings.

“ 12. Use and Occupancy.

“ 13. Salaries.

- Column 14. Books and Stationery.
- “ 15. Auto Expense.
- “ 16. Blank (the use of this explained under its own caption).
- “ 17. Sundry.

Should equal the sum total of the amounts in the following “Credit” Columns, namely:

- Column 5. Checks, Cash Paid Out.
- “ 10. Sundry Personal Credits.
- “ 11. Fees.

Therefore, if when additions are made of the totals of the columns of each page, and it is seen that the sum of the totals of the two sets of columns shown above do not agree, all that it is necessary to do is to trace each line and see that every item has been entered both in a charge column and also in a credit column. In other words to see that all items entered in Column 4—Cash Received, Deposits—are also entered in either Column 10—Sundry Personal Credits—or Column 11—Fees—and also that all items entered in Column 5—Checks, Cash Paid out—are also entered in one of the Columns 9, 12, 13, 14, 15, 16 or 17. Of course no one amount can be entered in more than two columns, with the possible exception of cash received by the doctor from patients and disbursed by him, or retained by him, without going through the office, as explained in detail under the instructions for Column 4, Cash Receipts. If it is found that each line has been correctly entered as above shown, then the only place that the mistake can be is in adding the totals

of the columns, and a re-check of these additions will show where the error is. Column 6—Daily Balance—does not enter into this balancing, or proof of correctness of posting, for the reason that it is merely what is known as a “Memo” account, that is, it is only inserted for the purpose of aiding in keeping an accurate record of the daily cash and bank balance. When these balances are kept just on check stubs, there is always the double danger of making a mistake in additions or subtractions on the stubs, and of carrying over a wrong figure from one sheet of stubs to the other. This danger of mistakes will be greatly reduced if this column is used and the specific instructions given under the heading of Column 6 are followed. Under the instructions for Column 6 is also shown the correct way to reconcile the bank, that is to make a reconciliation between the amount shown in Column 6 and the balance shown on the bank statement at the same date. “Reconciliation” merely means to bring the two into agreement with each other, and show where the differences between the two figures occur.

¶14. The Line Number

The Line Number which is carried on both sides of both pages is merely for the purpose of assisting in posting items to their correct line, and if watched will save the trouble of having an item in one column on one line and the same item in its corresponding column on another line, and therefore will make the checking back to see that each line balances, if such should be necessary at any time, very much easier.

¶15. Column 1—Date

The Receipts and Disbursements Plan explained herein, either with the use of the Cash Journal form used to illustrate this text or with ordinary blank columnar forms procurable from any stationery store, makes the use of a "General Ledger" such as is explained under the "Accrual Method" in Chapter VI, unnecessary. The amounts can be carried forward from one page to the next, and from one month to the next until the end of the year, therefore this date line should show the month and day, but the year is not required here as it is shown at the top of each page in the place provided. It is a very good idea not to have parts of two months on any one page, but even if the "Carried over" figures have made it so that there is only a line or two on the page when the month ends, bring these totals to the bottom of that page and carry them over to a new page for a new month. This is for the reason that a month is a recognized period and it is better not to have two such periods mixed up together, and the saving in paper does not begin to offset the advantages of keeping these periods separate.

¶16. Column 2—Name or Description

Here enter the name of the person from whom the money is received or to whom it is paid, together with any other information which might be considered necessary. For example: If Mr. John Smith pays \$10 on account of services performed for his daughter, May; while the account would be in the name of "John Smith" as explained in detail in the section "Patients Ledger" in Chapter IV it is better

to enter it here as follows: John Smith (May). In the same way when payments are made to William Jones and Company, owners of the building, write "Wm. Jones & Co. (rent)." And follow this system throughout as it will greatly facilitate obtaining information of any entry which may be required at some future date. Remember this is the only reason for Physicians keeping books at all, therefore if the transactions are not recorded so as to be entirely clear—one, two, or even ten years after they are entered, there was not very much use in entering them in the first place. And it does not take but a fraction of a minute to enter them properly at the time, but considerable time can be consumed "puzzling" over them later. Really the best way to do is, if possible, to set aside a specific time each day to do the posting in; it will take less time if done in a quiet period when the entire thoughts can be put on the work, than it will if done when there is a danger of many interruptions.

¶17. Column 3—Posted to Patients Ledger

Only the cash received from the patients, that is the credits to the individual patients accounts, will be posted from the Cash Journal. But as days may go by without posting these credits to the individual accounts, this column is provided so that a memorandum is had of how far the posting has been done to. The use of this column makes it unnecessary to go back over the individual accounts to obtain this information. On the individual account in the Patients Ledger put the date the payment was made as shown in this Cash Journal, and it helps in check-

ing back, should such be required at any time, to put also the page number of the Cash Journal on which the item appears. This column, that is Column 3 of the Cash Journal, is purposely made wide so as to permit more than a check \checkmark mark to indicate posting to the individual accounts. A good idea is to put here the date, like this 4/10, on which the item was actually posted to the credit of the individual account. This is for the reason that more thought is required to make a date entry than there is to just make a check mark indicating that the item has been posted, therefore the danger of thinking that it has been posted when actually it has not been posted, is lessened. And really this is a thing to guard against, therefore get the habit of not making the mark, whether check mark or date is used, indicating that an item has been entered, until **after** the amount has actually been written in on the patient's individual account. This is because if the mark is made and an interruption comes, the probabilities are against one looking back to see if the last item marked as entered really has been entered. Whereas if the entry is made and then an interruption comes before it is checked as posted, no harm is done, as it automatically shows up when the posting is resumed. Because two credits of precisely the same amount on the same day to the same individual would immediately raise the question of duplication in the mind of the person posting them.

¶18. **Column 4—Deposits, Cash Receipts**

Just one column each for all cash received and cash paid out, whether the money goes through the bank account or not, is provided in the Cash Jour-

nal form illustrated herein, for the reason that this saves work. If it is desired, however, separate columns for Cash Receipts and Bank Deposits, and Cash Paid Out and Checks Issued, can be used. In that case the only difference from the method detailed hereunder would be:

All cash received would be entered in the "Cash Received" Column first.

Deposits made to the Bank would be entered in the Cash Paid Out Column, as well as the Bank Deposits Column.

This is for the reason that a deposit to the bank would be a credit to the cash under that plan. In using separate columns the difference between the two "Cash" columns should equal the Cash on Hand, and the difference between the two bank columns would represent the balance in the bank. With the use of a form such as illustrated, this duplication is unnecessary, the difference between the two columns, namely Column 4 and Column 5 represents **both** the Cash on Hand and that in the bank, and it is a simple matter to deduct the amount of the Cash that is on hand, from the figure arrived at by deducting Column 5 from Column 4 and used daily in Column 6, and the result will be the Cash in the bank. A detailed form and instructions for making this reconciliation is shown under the instructions for Column 6.

¶19. **Cash Received From Patients**

If turned into the office.

Enter the amount in Column 4, with an appropriate description as already explained, and also enter the same amount in Column 11—Fees. This

brings the amount into Income for the first time. The amount will also be entered as a credit to the Patient's individual account in the Patient's Ledger. It makes no difference whether or not the amount is later deposited in the bank or paid out as cash for some expense item, if it is turned over to the office it **must** be entered in Column 4, Cash Receipts, and if from patients also in Column 11, Fees.

¶20. If Received by Doctor Personally and Retained by Him

The amount can, if desired, be entered in Column 4—Cash Receipts—but in that case it must be entered in Column 5 as Cash Paid Out, as well as in Column 9—Personal Drawings—and Column 11, Fees. The same results exactly are obtained if the posting to the Cash Columns are left out and the entry made merely to Column 9—Personal Drawings and Column 11—Fees. In this latter case, however, care must be taken to see that the amount is posted to the credit of the individual patient. The reason that it is not necessary to post to the two Cash Columns (unless it is desired that Column 4—Cash Receipts—shall show at all times all cash received from all sources) is that the two entries merely offset or cancel each other in these columns. Furthermore, if cash is collected by the doctor and retained by him, the effect is that fees have been earned and withdrawn for personal use, and therefore the suggestion of entering only in Column 9—Personal Drawings—and Column 11—Fees, correctly records the transaction. As the name of the patient from whom the money was received will be entered in

Column 2 there is not much danger of overlooking the posting to the patient's account, even though the amount does not appear in the cash column.

¶21. Cash Received NOT From Patients

If two bank accounts are kept, one for professional income and the other for income derived from sources outside of professional fees, then of course, money received from those outside sources would not be entered on this Cash Journal. But if only one bank account is kept for Income, which is the better way, then amounts from these sources will be entered in Column 4—Cash Receipts and also in Column 10—Sundry Personal Credits—with an explanation of the source from which the money was received entered in Column 2—Name and Description and Column 8—Explanation. For example, suppose \$100 was received as dividends on some stock in "A" Corporation, then in Column 2—Name or Description—would be entered "A" Corporation, in Column 4 Cash Receipts—would be entered \$100, in Column 8—Explanation would be entered "Dividends," and in Column 10—Sundry Personal Credits would be entered \$100. In this way there is a complete record of the fact, and it will be just as clear ten years from the date of entry as it was the day it was entered.

¶22. If Money Is Borrowed

If money is borrowed and deposited to the professional account at the bank, the amount will be entered in Column 4 and Column 10 as shown in the following example of \$1000 borrowed at the First

National Bank. In Column 2 will appear the name, or—"First National Bank." In Column 4 the amount received, or—\$1000. In Column 8 how the money was received, or—"Note." In Column 10 why the money was received, which was on account of the Doctor's credit, and therefore enter to this Column—"Sundry Personal Credits"—\$1000. If, however, instead of getting the face of the note, that is the total amount the note is made for, the bank deducts its interest at the time and calls it by another name "Discount," then enter the total amount that the note is made for in Column 10—Sundry Personal Credits, and the amount of Cash actually received in Column 4, Cash Receipts, and the difference which is the discount or interest, in Column 17—Sundry Expenses—and in Column 18—Explanation—enter the word "Interest." This is for the reason that if this is not entered this way the amount of this interest will be forgotten, and it is a deductible item from all Income Tax Returns, and therefore should appear as an expense.

¶23. Two Bank Accounts

In referring to two bank accounts in the preceding paragraph, the thought in mind was, as stated, two accounts used for Income, one being for Professional Income and the other for Income from sources outside of the professional. While there is no question but that two bank accounts can be used for such purposes, and in some cases it might be more practical to do so, still it is **not** suggested here, for the reason that if all Income is concentrated into one book it is much easier to make the Income Tax re-

turns at the end of the year, and to obtain any other information which it is necessary to obtain from the books from time to time, particularly facilitating matters for the Executors of the Estate. It is suggested though, if feasible in each individual case, to have two bank accounts for "Outgo," using the larger checks with three to a sheet for the professional account, and the smaller pocket checks for the personal account. In this way, the drawings can be made in round sums and the purely personal expenditures do not become a matter of business record.

¶24. Column 5—Checks, Cash Paid Out

Like the Cash Receipts and Bank Deposits, only one column is used in the Cash Journal form illustrated herein to record both the checks and the Cash Paid Outs, and Column 7 will be used to show which class of disbursement the entry referred to was. When a check is issued the check number will appear in Column 7 and when currency is paid out the word "cash" will appear in the place of the check number. When cash is paid out, whether it is in the form of a check or in currency makes no difference, it must be paid out for something. In other words, there must be value received in some way or another. That "value" may be "Personal Drawings" or one of the expenses, and therefore all amounts entered in Column 5—Checks, Cash Paid Out—will also be entered in Column 9 "Personal Drawings" or in one of the expense Columns, 12, 13, 14, 15, 16, or 17, provided for the various classes of expenses, as explained in detail under their respective column

*Always pay out - do not
writing check -*

captions herein. When checks are paid out there is the check stub to go back to when postings are made to the Cash Journal, but as this is not true when currency is paid out, there are only two possible ways to do in this latter case. Firstly and preferably, is to make the entry in the Cash Journal right at the time that the currency is paid out. Sometimes though, this is impracticable because of more pressing duties at the moment, and therefore the only other course open is to make a notation on a piece of paper and insert it in the Cash Journal at the page where the entry is to be made, or in a special box or drawer kept for this purpose. Do not try to rely on memory even for five minutes, as concentration on the matter which prohibited the making of the entry at the time is very apt to cause the forgetting of it entirely. Then the human memory is faulty at the best and it is because of this that records are kept. In fact, one of the chief reasons for mistakes in bookkeeping is because those charged with the responsibility will insist on trying to rely on their memories, forgetting the outstanding fact that if their memories would keep a record of the transactions, there would be no need for the books.

¶25. If Money Is Paid Out for Expenses by the Doctor Personally

If money is paid out for expenses by the doctor personally, either in currency or from his private bank account, the amount will be entered in Column 10 and also in the expense column of the account affected. This probably will most frequently hap-

pen on "Car Expense" in the purchase of Gasoline, Oil, etc. Using this as an example, suppose \$2.45 worth of Gasoline and Oil is purchased for cash and paid for by the Doctor at the time, then the following entries would be made: Column 2—Description—"Gas and Oil, bought personally" Column 8—Explanation—"G. and O.", Column 10—Sundry Personal Credits—\$2.45, and Column 15—Car Expense \$2.45. The reason for this is that if this entry is not made, then the expenses which the doctor pays out personally are overlooked, which means again that Income Taxes are overpaid. The only way of course, that the information for these entries can be obtained by the Doctor's Assistant, if the responsibility for keeping the books rests there, is from the doctor himself.

Therefore a **Memo Book** to be carried around in the doctor's pocket is suggested and this memo book used to jot down all entries which should be made on the books at the office, and these notes turned into the office daily. The use and style of this memo book is explained more in detail under its own caption in Chapter V. The best way to do is to, as far as possible, make all professional expense disbursements from the professional bank account or the office, limiting the private account to purely personal expenditures. Among the Professional Expenses though, include ALL such items as Taxes, Automobile Licenses, Donations, etc., whether those taxes apply to the residence or not, as explained more fully under the detailed instructions for Column 17—Sundry Expenses—and in the Income Tax Section.

¶26. Cash Paid Out Tickets

Cash Paid Out Tickets should be made out and retained, these tickets should, preferably, be a receipt taken from the payee, but if not, one should be made out anyway so that the person responsible for the paying out the money has a proof of the authenticity of the disbursement. If these tickets are fastened together, or inserted in an envelope, and filed monthly according to months, a minimum of work is required, yet it is an easy matter to look up any desired item at any time.

¶27. Borrowed Money Repaid

Borrowed money repaid will be charged into the Personal Drawings, Column 9, for the reason that when the money was borrowed it was credited to the Personal Sundry Credits, and also because the repayment of a loan is not an expense any more than borrowed money is Income. Any interest on the money will be charged into Column 17, Sundry Expenses and the word "Interest" written in Column 18.

¶28. Column 6—Daily Balance, Cash and Bank

As already stated this column is merely what is known as a "Memo" Account, and is the difference between Column 4, Receipts and Deposits, and Column 5, "Paid Outs and Checks," and should at all times show the amount of Cash on hand and in bank. This figure will be correct if the amount used as the opening figure is right, and therefore it is suggested that the bank statement be procured from the bank and the amount on deposit be reconciled in accordance with the form shown here, and then

this amount, plus the amount of cash on hand which has not been deposited in the bank, be entered in Column 4—Receipts—and Column 10—“Sundry Credits.” The reason that it is credited to the Personal Account is that, as a balance of cash on hand, it is capital at the date of opening of the book. It is not necessary to add the entire amounts in both columns 4 and 5 each time in order to arrive at the Daily Balance, but the previous day’s balance can be added to the day’s receipts and then the day’s paid-outs (whether checks or cash) be deducted from the sum of these two, which will leave the balance of cash on hand and in bank at the end of that day. The amount of cash on hand not deposited in the bank being then deducted from this balance will leave the net amount in the bank.

EXAMPLE

Previous Day’s Balance	-----	\$116.50
Today’s Receipts	-----	\$ 25.00
		40.00
		60.00
		15.00

Total Today’s Receipts	-----	140.00

Total	-----	\$256.50
Today’s Checks and Paid Outs	-----	15.00
		2.21
		30.00

Total Checks and Paid Outs	-----	47.21

Cash on Hand and in Bank; New Balance for Col. 6	-----	\$209.29
Cash on Hand in Office, not deposited in bank	-----	75.00

Balance in Bank	-----	\$134.29

This is true every day, so by deducting the amount of the cash on hand in the office which has not been deposited in the bank, from the amount of the Daily Balance in Column 6, the net amount of the bank balance is shown.

¶29. How to Reconcile the Bank

Reconciling the bank means bringing the amount shown on the books into agreement with the amount shown on the bank statement and showing where the differences occur. The following method illustrates a systematic way of arriving at this agreement or reconciliation.

1. Arrange the checks in numerical order.
2. Separate any "debit memos" or "credit memos" which may have been issued by the bank but the amounts not entered on the books.
3. Enter the amounts of the "debit memos" in Col. 5—Checks and Cash Paid Out—with the correct charge in the expense column. Say, for instance it is a D. M. for \$2.50 for printing checks, the charge would be entered in Col. 14, books and stationery. Enter also the credit memos, but these would be entered in Col. 4, Cash Receipts and Col. 10, Sundry Credits, with a notation in Col. 8 as to the reason for the C. M. If, for example, it was for interest on the balance at the bank, the word "Interest" would be entered in Col. 8.
4. Check off the checks which have been returned by the bank, preferably with a colored pencil, and on the line which separates Col. 5—Checks, from Col. 6—Daily Balance. The

object of checking on this line is that the **amounts** will be checked as well as the check numbers, and so if a check has been issued for one amount but entered on the books in another amount, the mistake will be caught.

5. Make corrections of any mistakes which have been discovered in this checking, and change the balance in Col. 6—Daily Balance—accordingly.
6. See that all deposits made to the bank have been included in Col. 4, Receipts, and if some money has been deposited, such as borrowed money, which has not been entered, enter it on the books. This also will require a change in the Daily balance.
7. List the numbers and amounts of the checks which have not been returned by the bank as paid.
8. Put the figures down in a form somewhat as follows:

Balance per Bank Statement.....	\$ -----
Deduct Outstanding Checks (those not returned by bank)	
15 -----	\$ -----
17 -----	-----
26 -----	-----
31 -----	-----

Total Outstanding Checks deduct	-----

Net Balance in Bank.....	\$ -----
ADD, Cash on Hand, not deposited in bank	-----

Total should be last balance shown in Col. 6	\$ -----

Among the outstanding checks will be included any which have been written and entered in the Cash Journal but not mailed out, if there are any such, in fact all checks which have been entered in the Cash Journal but not paid by the bank must be included. It is seen then that by deducting the total of the checks which have been issued but not paid by the bank from the amount which the bank shows as on deposit there, the net balance in the bank is arrived at. And by adding to this net balance the amount of cash on hand, the actual amount of cash on hand and in bank is ascertained. This amount should, of course, be the same figure as that shown in Column 6—Daily Balance—at the same date. And it will be if these instructions have been followed, and therefore if these two figures are not the same at any time, just go over the instructions carefully and see what has been overlooked. If these things have all been done the two figures **must** agree, unless the bank has made a mistake which is possible but not probable, and therefore it is best to work on the presumption that the bank is right until after all other chances of error have been traced down. Then if it is not located add the opening balance on the bank statement to the deposits shown on the bank statement and deduct from the sum of these two, the total of the charges or checks shown on the statement. The remainder should be the balance on the bank statement at the end, and if it is not the error is on the statement, then the thing to do • is to take the statement to the bank immediately.

¶30. Column 7—Paid Outs—Check Numbers

This column is provided for the purpose of designating the class of disbursements, which should be shown as follows:

Checks—By putting check number in this column.

Cash Paid Out—By writing the word "Cash" in this column.

Bank Debit Memos—By writing "D. M." in this column.

Of course it is at once apparent why the number of the check should be shown, as without check numbers it is very hard to obtain the list of outstanding, but perhaps the reason for the other two will not be quite so obvious. If these two classes of disbursements are properly "earmarked" it helps, not only from the standpoint of the person keeping the books being able to prove why the disbursement was made, but also if occasion ever arises when it is necessary to look up the item in case of dispute, etc. Therefore it is strongly urged that each class of disbursement be correctly earmarked no matter what system be used to so designate them, or whether a form of Cash Journal such as shown herein be used or not.

¶31. Column 8—Explanation

The purpose of this column is, as the heading suggests, to give an adequate explanation of the entries made to the Personal Accounts of "Drawings" and "Sundry Credits." Never record therefore, two distinct transactions on any one line as it will only tend to confuse and what is needed in

bookkeeping is clearness. In such a case as money from Patients being retained by the Doctor, but it being desired to have the Cash Receipts Column show all money received, as explained under the caption of Column 4, enter the amount on two lines. On one line in Column 4, Receipts and Deposits, and Column 11—Fees, and on the other line in Column 5, Paid Outs, and Column 9, Drawings. The same way if a check for \$50.00 is drawn for Personal Expenses and the \$2.45 for Gasoline and Oil—(which is used as an illustration under Column 5) is paid out of it, use two lines. The \$50.00 in Column 5 and Column 9 on one line, and the \$2.45 in Column 10 and Column 15 on another line, with the explanation in this column, number 8, of “Drawings” against the \$50.00, and G. and O. against the \$2.45. While this cash journal illustrated herein is adapted particularly for the individual practitioner, still it could be used for Partnerships, but in that case this explanation column would have to carry the initials of the partner affected in addition to the other explanation. Therefore a cash journal with more columns, giving two of these columns to each partner, would probably work better. The main object of this explanation column is to clearly designate the “Sundry Credits” such as “Dividends,” “Interest,” “Sale of Property,” “Borrowed Money,” etc., in fact for all Income or Credits which are not income from professional fees.

¶32. Column 9—Drawings

“Drawings” mean those monies which are drawn for purely personal expenditures, whether

those expenditures are in the nature of household and living expenses, or are investments in securities, purchases of land, automobiles or other assets. In such cases, that is the purchase of Assets, it is better to draw the checks in payment from the professional account and to write an explanation of the amount in Column 8. In this way a record would be kept of these assets which might frequently prove very useful, particularly to the Executors of the Estate. As already suggested it is better, if practical, to make the drawings for personal expenditures in round figures as it saves a lot of unnecessary bookkeeping, because if checks are drawn for each small personal expense it just means many more entries must be made. Re-payment of the principal of borrowed money will be charged to "Drawings," but the interest would be charged in the "Sundry Expense" column.

¶33. Column 10—Sundry Credits

This column is provided so that any money deposited in the bank which does not come from professional fees can be entered on the books. It will also be used at year ends for crediting the Balance of Cash on hand and in Bank at that time, as previously explained under "Opening Cash Journal" and again under "Year End Closings" in this Chapter. The items most frequently to be entered in this column will be "Dividends Received," "Interest Earned," "Money Borrowed," "Personal Money Deposited in Professional Account," "Money Received from sale of Property." In short any money except that received from Patients on account of "Fees."

¶34. Column 11—Fees

Under this plan, the Receipts and Disbursement Plan, only cash actually received from Patients is considered fees. The Charges to Patients are not brought into Income, therefore under all ordinary circumstances any entry in this column Fees—will also appear in Column 4—Cash Received. The only exception will be when money is collected and retained by the doctor without being turned into the office as explained fully under the caption of Column 4, Cash Received—in this Chapter. Care must be taken to see that only the Cash Received from Patients is entered here and not the charges made to patients. If, however, a note is received from a Patient and is discounted with a Finance Company or at the bank, the amount received will be entered in Column 4, Cash Received and in Column 11—Fees. If at some future time some part of the note is not paid and it is necessary to reimburse the Finance Company, the amount returned to them will be entered in Column 5 and also in Column 17 with a notation in Column 18, "Fees Lost." It cannot be called "Bad Debts" because there are no bad debts as deductions from income under this system. Instead of charging in Column 17, the amount refunded could be entered in red ink in Column 11 and deducted, instead of added, when totaling the pages. If it can be remembered to do this, that is deduct it when totaling the pages, it is the better way to do. Entering in red ink helps, but it would only be entered in red ink in Column 11, not in Column 5, as it would be **added** to the amounts paid out, but **deducted** from the fees.

¶35. Column 12—Use and Occupancy

Under the title of Use and Occupancy should be charged all expenses which go towards maintaining the office, as an office, such as Rent, Telephone and Telegraph, Light, Heat and Water, Janitor Service, Physicians Telephone Exchange Service. In fact all the overhead expenses of maintaining the office. Where the office is kept in a distinct location from the residence, there will not be much difficulty in properly allocating these charges, but where a part of the residence is used for an office, these expenses should be pro-rated as explained more fully in the Income Tax Section. In the Name or Description (Column 2) will be entered in addition to the name of the person to whom the money is paid, the reason for the payment, where such is necessary. For example, payments to Wm. Jones & Co. for rent would require (rent) written in brackets in order to clearly designate the reason for payment, but payments to Western Union Telegraph Co. or Bell Telephone Company would be self explanatory and therefore would not require further explanation, even if telegraph charges are included in the telephone bills. There is no need for a Physician to have the minute analyses of expenses that business requires, therefore all the expenses incidental to the use and occupancy of the office can be posted in the one column instead of four or five.

¶36. Column 13—Salaries

All salaries and wages paid out in the professional interest will be included under this heading,

but it must be seen that these are strictly limited to such salaries. None of the doctor's personal drawings can be included in this column for the reason that it is impossible to pay oneself a salary. In this column will ordinarily be included the amounts paid to office assistants, nurse assistants, etc., but it is also possible that some employee's wages are in part a professional expense, and in part a personal expense. For example, a chauffeur might be employed whose time was divided between driving the car on professional calls and for social purposes. In cases like this the salary would have to be divided in the same ratio as the services applied, in other words, if the chauffeur in the above case was employed one-quarter of his time in driving for professional calls, then one-quarter of his salary should be charged here. In such instances it would be better to pay the employee out of the Professional Account and make the charge through the books, charging three-quarters, or one-half, or whatever the correct ratio was, to salaries and the balance to the Personal Drawing Account.

¶37. Column 14—Books and Stationery

Under this classification will be included all accounting books; technical magazines; carbon paper and typewriter ribbons; stationery such as bill heads, letter heads, etc., and those classes of expenditures which are listed more particularly under the Classification of Accounts under ¶41 of this Chapter. In the case of Medical Books and Instruments the deciding factor as to whether they

are what is known as Capital Expenditures, that is whether they constitute a more or less permanent asset, or whether they are a straight expense item, is how long are they good for? how long is their **useful** life? If the useful life is approximately a year or less they should be charged directly into this column. If the useful life is many years then they should be charged in the Personal Drawing Account Column and an inventory taken at the end of each year and Depreciation charged thereon, or the method as explained more fully under the caption of Depreciation in the Income Tax Section, could be followed.

¶38. Column 15—Auto Expense

Where an automobile is used entirely for professional purposes the entire amount of the gasoline and oil, repairs and upkeep is a professional expense. The automobile licenses though should be entered in Column 17—Sundry and marked "Auto License," as these really are the same as taxes being paid to a political subdivision of U. S. Where, however, a car is used partly for professional purposes and partly for personal use then the expenses should be divided in the ratio of their respective uses. In other words, if the car is used say, 75% for professional requirements and 25% for pleasure, then 75c of every dollar is a professional expense. It would prove a nuisance to so divide every payment however, so the best way to do is to charge **all** automobile expense into this column during the year and then make the division at the end of the year, as the only reason for mak-

ing the division is for Income Tax purposes. In considering Auto Expense it must be remembered that all repairs, whether they constitute new tires or new batteries are nevertheless expense, but the purchase of a new car is not an expense. This auto expense is treated from the Income Tax standpoint more in detail in the Income Tax Section.

¶39. Column 16—Blank

Every Physician is an individual, and as such there will be those things in each practice which will be individual to that practice. This column is left in blank therefore so that it can be used for any expense not otherwise provided for, which occurs with sufficient frequency to warrant the use of a separate column for that purpose. It is not advisable to use the column for anything that only occurs infrequently, for the reason that such items can just as well be entered in the sundry column. Each individual practice will dictate the use of this column. For example, in a partnership it could be used to post the drawings of one partner while Column 9 could be the drawings of the other partner.

¶40. Column 17 and 18—Sundry Expenses and Explanation

In these columns will be entered those charges which only occur infrequently, such as Interest, Insurance, Taxes, Donations, etc., the amounts being entered in Column 17 and the explanation of the charge in Column 18. **All** taxes paid to City, County and State, whether on residence property, or

property held for investment purposes, should be paid through the professional account, otherwise there is danger of overlooking them at the year end when preparing the Income Taxes. The same thing is true of Donations to Charitable Institutions. Always make a notation of what the expense was in Column 18 when making a disbursement chargeable in the Sundry Expense column.

¶41. Synopsis of Where to Charge Expenses

Use and Occupancy—Column 12

- Rent.
- Heat of Office.
- Telephone.
- Telegraph.
- Light.
- Janitor's Service.
- Water.
- Physicians Exchange Service.

Salaries—Column 13

All money paid for services to persons employed in conduct of the Profession.

Books and Stationery—Column 14

- Accounting Books.
- Technical Magazines.
- Stationery.
- Carbon Paper and Typewriter Ribbons.
- Directories.
- Stenographers Books.
- Memo Books.
- Medical Books with Short Life.
- Office Magazines.
- Pens, Ink, Pencils, etc.
- Postage.
- Medical Instruments, with Short Life.

Auto Expense—Column 15

On Car Used for Professional Calls.
Gasoline and Oil.
Tires.
Batteries.
Auto Repairs.
Automobile Insurance.
Taxi Cab Expense for Professional Calls.

Blank—Column 16

Use this Column for any frequently recurring charge which is individual to the particular practice. For example, a Homeopathic Physician would use this column for "Medical Supplies."

Sundry—Column 17

Interest.
Donations.
Licenses and Permits.
Association Dues, but limited to dues in Medical Associations, Chambers of Commerce, etc., and must not include secret Society dues or Social or Golf Club dues.
Taxes.
Repairs to Office or Medical Equipment.
Insurance for Fire and Employers Liability which pertains to the profession.

In fact in this classification include all charges which should not logically belong under either Use and Occupancy of the office, Salaries, Books and Stationery or the particular individual columns.

¶42. Partnerships

The special form of Cash Journal illustrated herein can be used for partnerships if desired, or stock columnar journal forms, such as that illus-

trated in Chapter VI, "Accrual Method" can be used. In partnerships the Partnership agreement is always the deciding factor, and the books must be arranged so as to be able to reflect this agreement. On the hypothesis that the agreement states that all fees shall go into a common pot and be divisible in a certain ratio, then only one fees account would be required, and the special Cash Journal form could be used, as the only thing that would be necessary to keep separate would be the drawings. This could be done in two ways, either by using the Personal Drawing Column 9 for both or all partners and designating the particular partner by putting his initials in the Explanation Column opposite the amount, or if there are only two partners and the Blank Column 16 is not required for anything else, then it could be used for one partner while Column 9 is used for the other. If the first of these two plans is followed it is necessary to have a ledger sheet for each partner on which to post the individual drawings, so that a total of each partner's drawings can be easily and quickly obtained. Even if the partnership agreement calls for so much "salary" to each partner, these "salary" amounts will be posted to their drawing accounts just the same, as no matter what the partnership agreement may call them all drawings by partners are a division of profits and not an expense. If the fees are not in common but each doctor keeps his own fees, and the partnership is really nothing more or less than a sharing of the expenses of maintaining the office, then it is not a partnership at all, and separate books should be kept for each. In cases like this, if each issue their own checks direct

for their share of the expenses then, of course, the detailed instructions already given can be followed. But if one issues a check for the full amount of rent and looks to the others for reimbursement of their share, then the best way to do would be to charge into Use and Occupancy the amount of the expense portion and the balance into the "drawings" account and then credit the drawings account when the reimbursements are made. When making the charge to the drawings account though, **immediately** make a charge on a separate ledger sheet for the share of each doctor. Perhaps the method will be best explained in the following illustration, "Doctors A, B, C and D, and Dentist E have offices together. Doctor "A" has signed the lease and is responsible to the owners of the building for the rent, which he pays and collects the respective shares from B, C, D and E. The rent for the entire suite is \$250.00 a month of which each pay \$50.00. Doctor "A" will, when issuing the check for \$250.00 charge \$50.00 in Use and Occupancy and \$200.00 in "Drawings," Column 9, making a charge for \$50.00 to each of Doctors B, C, D and Dentist E on their individual ledger sheets. Then when the amounts are paid they will be credited on the individual ledger sheets and entered in Column 10 of the Cash Journal as a Sundry Personal Credit. The individual ledger sheets will keep a record of the individual accounts and if any are not collectible they can be charged off by making an entry on the Cash Journal to Column 10, Sundry Credits and Column 17, Sundry Expenses and marked Doctor C's rent uncollectible. If one of the larger columnar forms are used, two columns could

be kept for Rent, and other divisible expenses such as office assistant and the total payments made by Doctor "A" charged into the charge or debit column and the refundings into the Credit column. Then the difference between the two columns would be Doctor "A's" net expense.

¶43. Closing Cash Journal at Year Ends

Each month the totals of each of the columns of the Cash Journal will be carried to their respective columns for the succeeding months, with the exception of course of the Daily Balance column which figure to be carried forward will be that of the last daily balance. This way of doing avoids the necessity of keeping a General Ledger and, on the Cash Receipts and Disbursements basis, is just as effective for the Physician. At the end of each year all that it is necessary to do is **not** to carry any of the items forward to the next year except the Cash on hand and in bank, which amount will be entered also in Column 10—Sundry Personal Credits, in exactly the same way as when the Cash Journal was first opened. The difference between Column 11—Fees and the sum of the expense Columns 12, 13, 14, 15, 16 and 17, will represent the net income for the year.

¶44. Balance Sheet On Receipts and Disbursement Method

Under the Cash Method proposed herein there is no general ledger used and so the Assets and Liabilities do not appear on the books. Therefore at least once a year an inventory of these Assets and

Liabilities should be taken and a record made of them in some small book used for that purpose. Wherever possible the items subject to Depreciation such as Medical Books and Instruments, Office Furniture and Fixtures, Automobile for Professional use, should be entered at cost and the amount of depreciation taken each year entered in a separate account correctly titled as explained more fully under the Income Tax section.

CHAPTER IV

PATIENTS LEDGER

¶45. General

Practically all modern business is done on a credit rather than a cash basis, that is, the charge is made at one time and paid for at another time, and while under the Receipts and Disbursements method these charges are not brought into income until they are paid, nevertheless, it is very necessary to keep a clear record of them. The Patients Ledger therefore is the term used herein to designate the system of keeping record of the financial transactions of each individual patient, whether or not the system in use keeps these records in what is commonly known as a "Ledger" or whether the accounts are kept on series of cards, or by any other means. Four methods of keeping the Patients Ledger are illustrated and explained herein, the author's preference for Physicians being in the following order, namely:

The Visible Record,

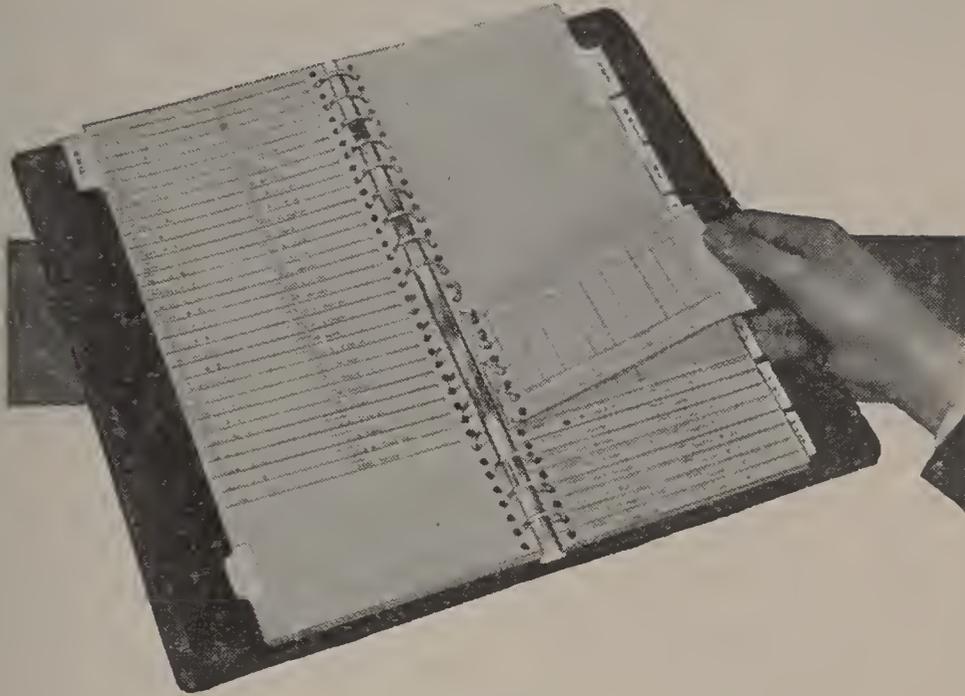
Ledger,

Cards,

Duplicate Statement-Ledger System,

and they are therefore explained in this order.

¶46. The Visible Record



The main advantages of the use of the Visible Record system, shown above, for the Patients Ledger, are that it is very simple and compact, and by having space for as many as 40 accounts on one page, saves considerable time in locating the various accounts. Also by having the accounts together in this way there is not the danger of mislaying any of the individual records that there is with the card system, or the trouble of turning many sheets that there is with the ordinary ledger. Similar forms and binders to that shown here are made by nearly all the large manufacturers of accounting supplies and can be procured at practically all stationery stores.

the two together, and makes any checking back easier. Also by writing a month name, such as April, for charges, and a number, such as C. J. 7 (C. J. standing for Cash Journal) for Credits, it is easier to pick out the charges and credits. If it is desired to have the date the payment was received show on the ledger it is suggested the following method be used. Example, a payment of \$15.00 received on June 9, and entered from Cash Journal page 73. Enter in this Column "6 C. J. 73" and under the date Column 9 enter the Code letter "R." In other words the number before the C. J. would show the month and the number after the C. J. the page of the Cash Journal, and the letter "R" in the date column would show the day of the month.

Day Columns

The object of having day columns is that by this method sufficient space for indicating all services performed for patients is provided in a compact form, so the various code letters designating the different classes of services can be inserted in the respective day column and thus show the day the service was rendered and the class of service performed. These codes are as follows:

- V. Visit to Patient.
- O. Office Calls.
- P. Prescription.
- N. Night Visit.
- C. Consultation.
- S. Surgery.

The detail of the various charges would appear on the "Physicians Case Card" shown at ¶56. There is, however, another class of charges which are very frequently overlooked entirely, but which are often a legitimate service charge, namely, "telephone." Often advice and prescriptions are given over the telephone, and no charge made at all, whereas, if the

same service was performed in the office the regular office call charge would be made. It is therefore suggested that this code be augmented by the letter "T" to designate such telephone service charges.

Name, Address, Etc.

In this space write the name, address, etc., of the person responsible for the payments, and all the amounts chargeable to that person will be kept under this one account. It is very poor policy to have more than one account with one person, that is, if Wm. Smith has a wife and six children, all the services will be charged to Wm. Smith, the particular patient being designated in the "Memo" Column as already stated. This is also true if Mr. Smith is responsible for other charges, say for example a niece, or someone he had hurt in an automobile accident, all should be charged to his account and statements rendered him monthly. This monthly rendering of statements is considered more in detail under the Chapter on Collection Methods. It is an excellent practice to number these individual account sheets as it makes it possible to ascertain if one is missing or to index the accounts if desired. The way to number them is alphabetically and in rotation as A1, A2, B1, B2, etc.

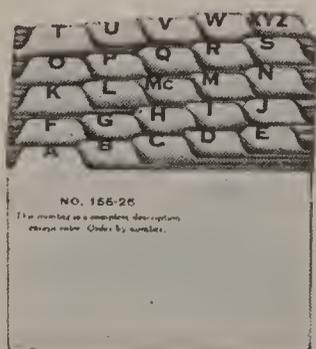
¶48. Physicians Ledger-Loose Leaf

PHYSICIAN'S LEDGER													
SHEET NO. <u>2</u>		OCCUPATION <u>Carpenter</u>				RESIDENCE PHONE <u>Clark 292</u>		NAME <u>Louis H Deal</u>				ADDRESS <u>556 Locust St</u>	
DATE	MEMBER OF FAMILY	MEMO	CALLS			TREATMENT		CHARGES	DATE	CREDITS	BALANCE		
1919			OFFICE	HOME	DIENT	RED	BLUE		1919				
		Amount brought forward						1.75			1.75		
May 12	Arthur	Tonsilitis	✓			✓		3.00			4.75		
13	.	.	✓			✓		3.00			7.75		
15	.	.					✓	1.00			8.75		
25	.	Tooth removed					✓	32.00			40.75		
									June 1	25.00	15.75		

PHYSICIANS LEDGER LOOSE-LEAF

The use of this Ledger sheet is very similar to that described under the caption of the Visible Record, the main differences being that the charges are not designated by code letters, but merely by check marks under the respective classes and a summarization of the case entered in the Memo column. It is not really necessary to have this case summarization on the ledger account for the reason that if the case cards are filed alphabetically and the ledger sheets run in the same order, it is not much work to look up the case card, where this information can be obtained in considerably better detail. As with the Visible Record, it is much better to show the Cash Journal page on which each payment appears, on the individual Ledger Accounts. The Ledger sheets shown above are of the loose leaf design and are $9\frac{1}{4} \times 11\frac{7}{8}$ inches furnished with 4 slit holes, so there is room enough on one sheet for quite a large number of transactions.

¶49. Card System

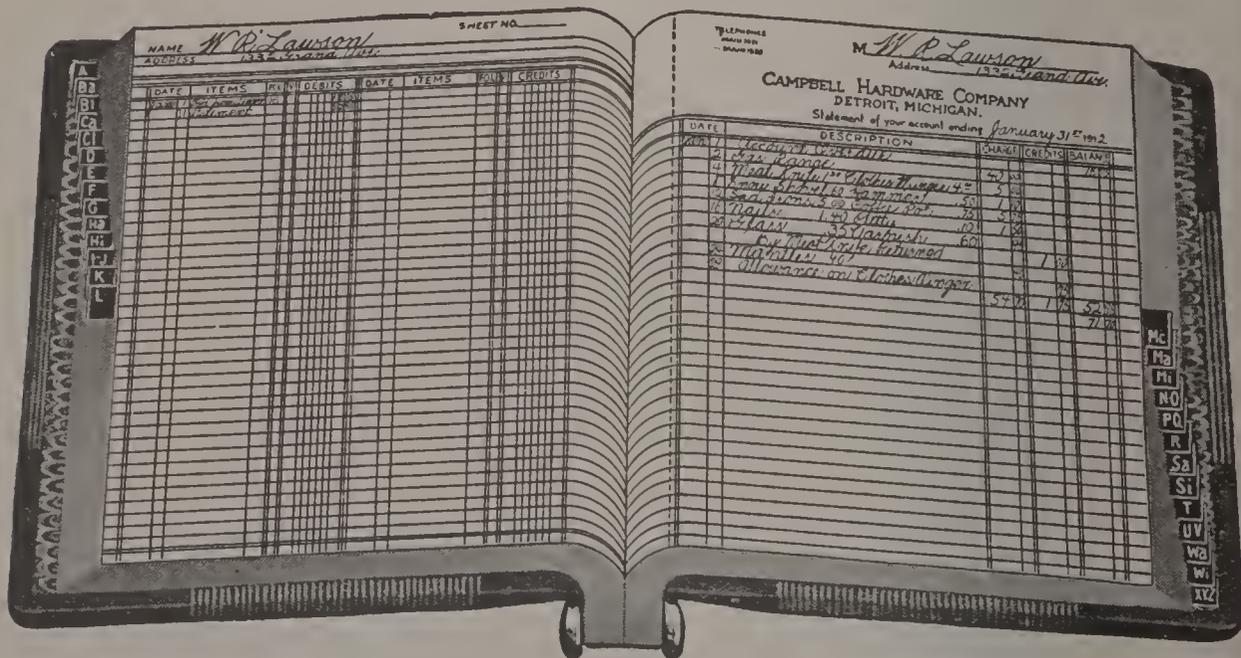


CARD INDEX GUIDE

Another method of keeping the Patients Ledger is on cards, however, as far as the author knows

none of the manufacturers print any stock form for Physicians on cards, and therefore, if it is desired to keep these accounts on cards there are only two ways open. Either to use a straight ledger form composed merely of a date column, a large description column and three monetary columns, Debit, Credit, Balance, or else to have special forms resembling the form for the "Visible Record" or the "Physicians Ledger" printed. This latter way is of course expensive. The Card System is handy and compact, the main objection being that there is the ever present danger of a card being mislaid, and under the Receipts and Disbursements method there is no "control" of the Patients Ledger and therefore a card could be lost in a busy office without the fact ever coming to light.

¶50. Duplicate Statement, Ledger System



DUPLICATE STATEMENT LEDGER

While the illustration above shows the accounts of a Mercantile Company, the form would be the same for Physicians, if this system was used for the Patients Ledger. The only difference being that the Doctor's name would be printed in the place of the Mercantile Co. The big advantage claimed for this method is saving of time at month ends, as the statements are already made out and all it is necessary to do is to tear the sheet out, which is perforated for this purpose, and mail it. The accounts are posted in indelible pencil and a carbon paper inserted between the original and duplicate, thus giving an exact copy of the statement as a permanent office record. The objection to this form is that it does not look as well as the ordinary statement form because, by being made out in pencil and at different times, it is not usually as neat as might be. Then again it perhaps has not as nice a professional look as the typed statement.

¶51. Main Points of Patients Ledger

Whatever system is used the main points to remember in connection with the Patients Ledger, are:

1. That the Accounts should be kept posted as nearly up-to-date as possible.
2. That the transactions should be entered so as to be self explanatory.

In other words charge accounts are only for convenience in transacting business and therefore

CHAPTER V

SUNDRY FORMS

¶53. Office Day Book

Sometimes it is impractical to take the time to make the entries in the Cash Journal or the Patients Ledger as and when the transaction occurs. If this is the case, it is suggested that a "day book" be used for this purpose and a record of the transactions made in this at the time, and then the first hour or two in the morning, or any part of the day which is the quiet period, used for making the entries from the day book to the permanent records. All this day book needs to be is just a paper covered note book such as can be purchased at any 5c and 10c store, ruled for one monetary column, the same as is shown for the Doctor's Memo book, only it will be larger, of course, and not in loose-leaf form.

Divide each transaction with a line, even if the transactions are posted to the same account. For example, using our friend Mr. Wm. Smith and his daughter "May" as an illustration again. Supposing both Mr. Smith and May come into the office and both receive service, and then Mr. Smith pays \$10.00 on account as he goes out. These are **three** separate transactions so do not enter them all in

one place in the day book or one of them may be overlooked, enter them like this:

Wm. Smith, Office call_____ \$3.00
(self)

Wm. Smith, Office call_____ \$3.00
(May)

Wm. Smith, Received On Account_____ \$10.00

The reason for writing the word "Received" instead of "Paid" in the day book when Patients pay money is that because of it being nothing but a posting memo, there might be danger of mixing it up with cash payments made, if this day book is used for that purpose. It is suggested, however, that the use of this office day book be limited to Charges and Receipts and that the disbursements made in currency be kept in accordance with the suggestions contained under ¶24 and ¶26 as in that way not only is the danger of mistakes minimized, but a better proof is had of the currency disbursements. If this day book is used, then write the word "entered" over the face of the day book entry **after** the transaction has been posted to the individual account in the Patients Ledger, or in the Cash Journal as the case may be. However, do not write this "entered" until after the entry to the permanent records has actually been made for the same reason as that given under ¶17.

¶54. Doctor's Memo Book

	\$ & CTS.		
○			
○			
○			

MEMO BOOK FORM

The Memo Book for the Doctor to carry around with him serves the same purpose as the office day book. That is he can jot down the various items which need recording on the books and then turn the sheet or sheets into the office daily. It is for this reason that a ring binder will probably be found to be the most convenient as the sheets could be torn out and turned into the office with less trouble than if they were contained in a bound book. It is a very good idea to go through and number the sheets first, as this gives some means of checking up if such should be required at any time. Manila envelopes could be purchased and these sheets, together with the cash paid out tickets, could be filed away in these envelopes, and the envelopes filed according to months. In this way there would only be twelve envelopes a year because the size of the envelope could be made to conform with the requirements. If this method is followed it will not be difficult to prove the authenticity of any entry in the books at any future time, if such proof should be required, and such

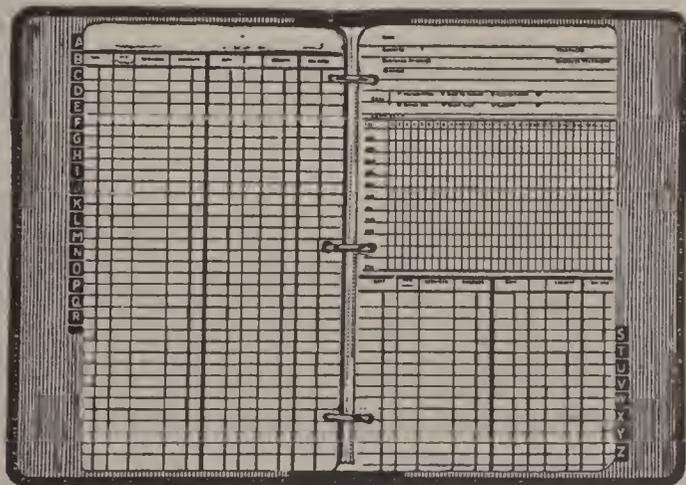
proof frequently is required, because that is what bookkeeping is for—Proof!

This Memo book can be kept in exactly the same way as the Office Day Book, that is, each transaction separated by a line, and no two transactions entered in the same line. For example, on a house call to Mr. Wm. Smith, gasoline and oil to the amount of \$2.45 was purchased, they would be entered in this memo book like this:

Gas and Oil	\$2.45
Wm. Smith (May) House	\$5.00

and the sheets turned into the office at the end of the day. They will then be entered in accordance with the instructions given elsewhere. In these cases as in ¶25 and ¶47.

¶55. **Pocket Ledger**



POCKET LEDGER

Some Physicians may desire to carry with them a pocket ledger showing the status of each patient's account. This, however, duplicates the

work of posting, as it is essential that a Patient's Ledger be kept in the office, except perhaps in the cases of smaller offices, when this pocket ledger might be used to take the place of the office ledger. Even in cases like this, however, it is not advised for the reason that anything carried around in the pocket is subject to being lost, and this would be a foolish chance to take with anything so vital as the "Patient's Ledger." Therefore if this pocket ledger is used it is strongly urged that an office ledger be also kept. If the collection methods advocated herein are followed it is not believed that the duplication of work required to keep both ledgers would be necessary.

¶56. Case Record Card

Physician's Case Record			
NAME	<i>Fred M. Boal</i>	DATE	<i>3/2/19</i>
ADDRESS	<i>1757 Walnut</i>	TELEPHONE	<i>Boal 200</i>
BUSINESS ADDRESS	<i>145 E. 6th St</i>	BUSINESS TELEPHONE	<i>71772</i>
OCCUPATION	<i>Inspector Warren Tool Co</i>		
AGE	<i>28</i>	SEX	<i>M</i>
MARRIED	<i>Yes</i>	CHILDREN	<i>2</i>
PULSE	<i>86</i>	TEMP	<i>99</i>
		DATE	<i>3/2/19</i>
<i>Never been seriously sick</i>			
<i>Called once or twice a year</i>			
SYMPTOMS <i>Complains of being tired</i>			
<i>Achy feeling with headache</i>			
RESULT OF EXAMINATION			
<i>Typhoid pneumonia</i>			
URINE	<input checked="" type="checkbox"/>		
BLOOD	<input checked="" type="checkbox"/>		
DIAGNOSIS			
TREATMENT <i>Isosol D</i>			
<i>Liquid Diet</i>			
<i>Ice Cap</i>			
<i>Thorge for Temp</i>			
REMARKS			

FORM 135

Probably all offices have a case record card somewhat similar to the one illustrated. This particular card is punched for filing in a ring binder and is ruled on the back for a continuance of notes on the case. The only advantage of filing these cards in a ring binder instead of in cabinets is that the danger of losing any is lessened. It is suggested here that, whichever system of filing be used, the Case Record Card be numbered to correspond with the number on the Patients Ledger. For Example: Mr. Williams, a new patient, comes in and he is the eleventh "W." His case card **and** Ledger card would be marked "W-11," and kept in this order in both the card files and the Patients Ledger. This way greatly facilitates the locating of the entire history, both financial and professional, of each case any time such is required. Suppose though, Mr. Williams was just a transient cash patient, the case record card would have to be made out but not the Ledger account. If then this case record card was filed under the "W" it would disturb the continuity of the numbers of the Ledger Accounts and Case Record Cards. It is, therefore, suggested that a division titled "Transient Cash Patients" be kept of the Case Record Cards, and that the cards in the division be filed alphabetically after the "Z" of the regular patient cards. It would then be unnecessary to number these cards and the regular system of numbering would be undisturbed.

¶57. Duplicate Prescription Form

Another way of keeping record of all services is to use a duplicate prescription form instead of

the Office Day Book and Doctor Memo book. A suggested form for this purpose is as follows:

ORIGINAL

Prescription No. _____

CHARGE _____

ADDRESS _____

PATIENT _____

V. O. P. N. C. S. T.

R

_____ M.D.

These prescription forms would be made and numbered in Duplicate, the original being on white paper and the duplicate on some colored paper. A carbon paper between the original and duplicate makes only one writing necessary, and the carbon will remain in the office and will be used as the posting medium to the Patients Accounts on the Receipts and Disbursements Method; or the Cash Journal or Service Record Journal on the Accrual

Method. If this system is used it should be used even when no prescription is written, in order that the duplicates will give a complete record of all services. The number of the form bearing the charge should be posted to the individual account in the Patients Ledger as well as the amount of the charge, and then the duplicate filed in numerical order. Then should occasion demand the looking up of any charge it would only require a matter of minutes to locate it. The letters under the address signify the class of service, and are the same as those listed under ¶47. A ring put around the proper letter will sufficiently designate the class of service without giving the information to others.

CHAPTER VI

ACCRUAL METHOD

¶58. Opening Discussion

As already explained in Chapter II, the advantages of the Accrual Method of bookkeeping are that it properly allocates to each period the income and expenses applicable to that period irregardless of when the actual payments may be made. But because of this a greater knowledge of bookkeeping, and more books, are required than under the Receipts and Disbursements Method. There is no question, however, but that the accrual method more accurately reflects the income for any single given period, and the only reason that it is not recommended here for the average Physician, is because it is more complicated. These brief instructions are being included though in order to assist any doctor who prefers to keep his accounts this way.

¶59. General Ledger

SHEET No. _____										ACCT. No. _____													
FORM BY A. V. BRUCE CO.										FORM BY A. V. BRUCE CO.													
CHARGES										CREDITS										BALANCE			
DATE	MEMO	POST REF.	DETAIL	V.	MONTHLY TOTAL	DATE	MEMO	POST REF.	DETAIL	P.	MONTHLY TOTAL	DATE	DR.	CR.	P.	AMOUNT							
	FORWARDED						FORWARDED																

LEDGER SHEET—Form 371

The General Ledger, which might be called the principal book of the accounting system, is a self balancing ledger to which is posted, in more

or less summarized form, the facts recorded in detail in the Cash Journal or other subsidiary books. While such a Ledger could, and often is, used with the Receipts and Disbursements method, still the use of such a Cash Journal form as illustrates that method here makes it unnecessary. But with the Accrual method it is different, there must be some book in which to post the general accounts whether that book be called "General Ledger" or by some other name. The accounts kept in the General Ledger do not include the individual accounts with the Patients, which will be kept in the same way as explained in Chapter IV. Nor do they include the individual accounts with creditors. But these accounts are merely summarized in the General Ledger under the title of "Patients Accounts Receivable" and "Accounts Payable." These General Ledger Accounts, that is the difference between the debit and credit sides of the accounts, should be the same amount as is shown by adding up the different accounts in the Patients Ledger or the Accounts Payable Ledger as the case may be. Because these accounts are posted in total from the posting medium, that is the Cash Journal or Service Journal, they are what are called "Control Accounts." In other words, the theory is that there is less chance of error in the one posting in total, than there is in the numerous individual postings which together make up that total. Therefore, the one posting in total is said to "Control" the numerous postings made to its subsidiary. Under the Accrual Method then the General Ledger Account of "Patients Accounts Receivable" will control the Patients Ledger,

that is, the balance between the Debits and Credits of the General Ledger Account should agree with the sum total of the individual balances in the Patients Ledger. If they do not agree, the only thing to do is to check back all the postings in an endeavor to locate the error.

Besides the Patients Accounts Receivable and Accounts Payable, the General Ledger will contain all the Asset and Liability and Income and Expense Accounts. And this is the best order to have them appear in the General Ledger, namely, first all the Asset Accounts, next all the Liability Accounts, then the Income Accounts, and lastly the Expense Accounts. The reason for this is that by this arrangement the monthly Trial Balance will run in the same order in which the accounts appear on financial statements, and therefore will facilitate the preparation of those statements. A suggested order for the General Ledger Accounts together with a lettered classification and index is as follows:

- A1. Cash on Hand.
- A2. Cash in Bank.
- A3. Patients Accounts Receivable.
- A4. Patients Notes Receivable.
- A5. Medical Books.
- A6. Professional Instruments.
- A7. Office Furniture and Fixtures.
- A8. Automobile.
- A9. Deferred Charges.
- B1. Accounts Payable.
- B2. Notes Payable.
- B3. Patients Notes Discounted.

- B4. Accrued Expenses.
- B5. Reserve for Depreciation, Medical Books.
- B6. Reserve for Depreciation, Professional Instruments.
- B7. Reserve for Depreciation, Office Furniture and Fixtures.
- B8. Reserve for Depreciation, Automobile.
- B9. Net Worth.
- C1. Fees. This can be divided into as many Classifications as desired. For example: The Income from Office Calls, Home Calls, Night Calls, etc., could all be kept separate. If this is desired then they would be numbered C1 for office calls, C2 Home calls, C3 Night calls, etc.
- C2. Interest Received, Patients Notes.
- C3. Interest Received, Sundry.
- C4. Miscellaneous Income.
- D1. Rent.
- D2. Telephone and Telegraph.
- D3. Salaries.
- D4. Heat, Light and Water.
- D5. Janitor's Service.
- D6. Books and Stationery.
- D7. Postage.
- D8. Auto Expense.
- D9. Licenses and Permits.
- D10. Association Dues.
- D11. Interest Paid.
- D12. Taxes.
- D13. Donations.
- D14. Sundry.

¶60.—Opening General Ledger

In opening the General Ledger on the accrual method it would be necessary first to take an inventory of all the Assets and Liabilities and to make a Journal Entry of them for posting to the

General Ledger. The differences between the Assets and Liabilities to outsiders being posted to the Net Worth Account.

	Dr.	Cr.
For Example:		
Cash Imprest Fund_____	\$ 50.00	
First National Bank_____	1,763.15	
Patients Accounts Receivable_____	9,243.85	
Patients Notes Receivable_____	750.00	
Medical Books _____	1,000.00	
Professional Instruments _____	2,500.00	
Office Furniture and Fixtures_____	950.00	
Automobiles _____	1,500.00	
Deferred Charges _____	145.00	
Accounts Payable _____		\$ 235.00
Patients Notes Discounted_____		500.00
Accrued Expenses _____		75.00
Reserve for Depreciation—		
Medical Books _____		250.00
Prof. Instr. _____		750.00
Office Furniture and		
Fixtures _____		95.00
Automobile _____		375.00
Net Worth _____		\$15,622.00

These inventories would be taken in the following manner:

Cash Imprest Fund by setting aside \$50.00 or \$75.00, as the individual requirements might be, for use of the office in paying small bills which are easier to be paid in currency than by check. The method of handling an imprest fund is explained under ¶64.

Cash in Bank by making the reconciliation as shown under ¶28.

Patients Accounts Receivable by listing the open balances shown on the Patients Ledger. If there are any credit balances deduct the sum of these credit balances from the sum of the debit balances and enter the difference, as the General Ledger control will merely show the net amount owing from patients, because it would be a nuisance to try and keep credit balances separate in the General Ledger.

Medical Books.

Professional Instruments.

Office Furniture and Fixtures.

Automobiles.

If the cost of these are known enter the cost price here and then place a present day valuation on them, and enter the difference between the cost and the present value in the respective Reserve for Depreciation Accounts. The book value, which is the difference between the asset accounts and the respective Reserve for Depreciation Accounts, would then be the same as the present day valuation. If the cost price is not known then the only thing to do is to enter the present day valuation in the Asset Accounts and make no entry in the Reserve for Depreciation Accounts.

Deferred Charges. Take the professional insurance policies, such as Employers' Liability, Automobile, etc., and compute the amount of unearned premiums. The same is true with other prepaid expenses, such as rent paid in advance. The one account of Deferred Charges can be used for all with just a notation in the "Memo" column of the

General Ledger stating what the item applies to, such as "Prepaid Rent," "Unexpired Insurance," etc.

Accounts Payable. A list of the unpaid invoices will be prepared and the total entered as a credit to the Accounts Payable Account in the General Ledger. It is better also to open an account with each individual in an Accounts Payable Ledger, than it is to try and keep record of them merely by an unpaid invoice file. The latter way is possible but is more conducive to mistakes.

Patients Notes Discounted should represent all the notes which are included in the asset account of Patients Notes Receivable, but which have been discounted, with the Doctor's endorsement thereon, and not yet paid by the maker. Care must be taken to see that only such notes as are included in the asset account are included here.

Accrued Expenses such as wages earned but not due, Interest accruing on notes, etc., will be entered in this account and earmarked in the same way as suggested for the Deferred Charges.

Reserve for Depreciation Accounts. The reason that these accounts should be kept and the amounts of Depreciation credited here instead of to the Asset Account, is that if this is not done the cost price is lost track of and the yearly depreciation charge becomes wrong, because of the cost price being reduced.

The Net Worth will be the difference between the Assets and the Liability and Reserve Accounts

and by entering the figure to the Credit of the Net Worth the General Ledger is open, and in balance.

¶61. Trial Balance General Ledger

Under the Accrual Method it is necessary to take what is known as a "Trial Balance" of the General Ledger each month. This trial balance means a listing of the accounts appearing in the General Ledger to see that the total of the debits and credits agree. It may be taken in two ways, either a balance of totals or a balance of balances.

To Illustrate:

Balance of Totals Method

	Debits	Credits
Cash -----	\$ 9,360.00	\$ 5,420.00
Patients Accts. Rec. -----	11,490.00	6,380.00
Net Worth -----	6,320.00	15,370.00
	<hr/>	<hr/>
Total -----	<u>\$27,170.00</u>	<u>\$27,170.00</u>

Balance of Balances Method

	Debits	Credits
Cash -----	\$ 3,940.00	\$ -----
Patients Account Rec. -----	5,110.00	-----
Net Worth -----	-----	9,050.00
	<hr/>	<hr/>
Total -----	<u>\$ 9,050.00</u>	<u>\$ 9,050.00</u>

The latter method is the one usually used for the reason that it gives the true figures of the accounts.

There are many different forms of columnar Journals made but none of them are really correctly designed to meet the needs of Physicians offices. It is therefore a question of choosing that which is nearest to the individual requirements, and the form illustrated on page 80 will, it is believed, come nearer to meeting these requirements for Physicians who desire to keep their books on the accrual basis, than any of the other stock forms.

In order to best explain the principles involved the following suggested headings for the various columns are given, starting from left to right.

Bank		
Deposits -----	Column	1
Checks -----	“	2
Date -----	“	3
Name or Description -----	“	4
Check Number -----	“	5
General Ledger		
Debits -----	“	6
Credits -----	“	7
Patients Accounts		
Debits -----	“	8
Credits -----	“	9
Accounts Payable		
Debits -----	“	10
Credits -----	“	11
Personal Accounts		
Debits -----	“	12
Credits -----	“	13
Fees -----	“	14
Miscellaneous Income -----	“	15

Expenses

Use and Occupancy	-----	“	16
Salaries	-----	“	17
Books, Stationery and Supplies	-----	“	18
Auto Expense	-----	“	19
Blank	-----	“	20
Sundry	-----	“	21
Explanation of Sundry	-----	“	22-23

¶63. Bank Deposits—Checks

All receipts should be deposited to the Bank in total, a Petty Cash Imprest Fund being used for disbursements made in currency. The checks will be entered numerically and charged to their correct account in addition to being entered in the “check” column. The Totals from each of these columns will be posted to the General Ledger monthly, and the bank reconciliation will be made to the balance of the General Ledger account with the bank.

¶64. Petty Cash Imprest Fund

The object of using an Imprest Fund is so that all receipts can be deposited to the bank in total without any deductions being made for currency disbursements. The way to start the imprest system is to issue a check for the amount required (usually enough to do for about a week) drawn in favor of “Petty Cash” and charged to account listed as A-1 in ¶59. This General Ledger account is then never disturbed, unless the amount of the fund is changed, because a reimbursement check is made to the fund for the sum of the expense tickets, which amounts are charged into their respective expense accounts from the check. In this way the amount of the fund is always represented by cash or expense tickets or both.

¶65. General Ledger Debits and Credits

The General Ledger Columns are to provide space to record infrequent transactions, such as the purchase of new equipment of any kind, which would of course be entered in the Debit Column. Or the receipt of interest or other Sundry Income which could be entered in the Credit Column. Postings from these two columns will have to be made individually to their respective accounts in the General Ledger, and not just the monthly totals which are sufficient in the case of the other columns.

¶66. Patients Accounts Receivable

The philosophy of "Control" accounts is merely that the whole is equal to the sum of its parts. In other words if the totals of the debit and credit columns of the Patients Accounts are made up of hundreds of entries to the individual patients, still the difference between these totals will be the same as the sum of the differences between the charges and credits of the hundreds of individual accounts making up these totals. Therefore if the opening balance agrees, the posting these totals to the General Ledger will give the same figure as the sum total of the open balances appearing on the Patients Ledger at the end of the period. For this reason the General Ledger account is said to "Control" the Patients Ledger. If at any time it does not agree, there really is no "royal road" that can be used with any degree of certainty, the only thing to do is to check back and see that all items posted to the General Ledger account

have been posted to the individual accounts in the Patients Ledger and vice versa. Different forms of Patients Ledgers are shown in Chapter IV.

¶67. **Accounts Payable—Debits and Credits**

The **number** of different accounts in the Accounts Payable will decide whether to keep a separate Accounts Payable Ledger or to keep the individual accounts in the General Ledger. The object of having the summary, or control, accounts in the General Ledger is because a large number of General Ledger accounts is cumbersome. Therefore if there are, on the average, forty or fifty accounts payable always open, it is much simpler to use a separate ledger for the individual accounts and to just keep a summary account in the General Ledger. This General Ledger account would be conducted in all respects like the control account of the Patients Ledger. That is only the totals of the Accounts Payable Columns in the Cash Journal would be posted to the General Ledger each month. If, however, there are only 10 or 12 open accounts on the average, the individual accounts could just as well be kept as Trial Balance accounts. This would mean that there would be no account titled "Accounts Payable," but that the balance of each of the individual accounts would be necessary in order to prove that the General Ledger was in balance.

¶68. **Personal Accounts—Debits and Credits**

Anything in the nature of personal Drawings will be charged into the personal account, and any income from Dividends on Stocks or from other

sources except professional income can be credited to this account. Or they could, if desired, be credited to the Miscellaneous Income as explained under ¶70. It is better though to keep the professional income separate from income from outside sources. In other words to credit Interest on Patients Notes to Miscellaneous Income, but Interest on Bonds to the Personal Account, with a correct notation on the Ledger Account.

¶69. Fees

Under the accrual method the fees are brought into income as and when the charges are made regardless of when they are to be paid, and therefore all fees should be entered here and posted once a month to the General Ledger. If it is desired to separate these fees into various classifications of service, a stock journal form such as is illustrated below could be used, or some of the columnar sheets placed at the back of the book and kept for this purpose.

PHYSICIANS' DAILY SERVICE RECORD												MONTH OF <i>January</i>			No. <i>1</i>		192 <i>5</i>	
DAY	NAME OF PATIENT	KIND OF SERVICE						PATIENTS ACCOUNTS			CASH SERVICES							
		CALLS			TREATMENT			PRESCRIPTION	MISCELLANEOUS	CHARGES		CREDITS						
		OFFICE	HOME	NIGHT	MEDICAL	SURGICAL												
	AMOUNTS BROUGHT FORWARD																	
2	<i>Lewis, Chas B</i>		3 00							3 00	✓							
2	<i>Smith, Mrs A.</i>	2 00										2 00						
2	<i>Williams, F. E.</i>			5 00			1 50	15 00	✓	2 150	✓							
2	<i>Ellis, Thomas G.</i>					10 00				10 00	✓							
5	<i>Lewis, Chas B</i>											3 00	✓					

SERVICE JOURNAL

This form of service journal is not advised, but is being illustrated here because it is the only stock form on the market at present. The reason that

it is not advised is that it is not self balancing, and if it is decided to use it, the column for Patients Accounts, as such, should be ignored entirely, one of the columns being used for "Fees Total" and the other columns for the classification of those fees. For example, \$100.00 charge for surgery would be entered under "surgery column" and also under "Patients Charges" Column, which would be re-headed "Fees Total." In this way the sum total of the Classification columns should equal the total of the fees column both here and in the Cash Journal.

The author of this book is not designing any special Cash Journal for the Accrual Method of accounts for Physicians because he is of the opinion that the Receipts and Disbursements Method is much better adapted to their profession.

¶70. **Miscellaneous Income**

Interest on Patients Notes, or other Miscellaneous Income will be credited in this column. If there are interest bearing notes due at the end of the year, the amount of interest which has accumulated but not been paid should be computed and a charge made to an account titled "Interest Receivable" and credited into this column. This charge would have to be made through the "General Ledger" column in this Cash Journal as that is the purpose of having those columns, to provide a place for infrequent charges and credits. This Miscellaneous Income column will not be posted to one General Ledger account but at the end of each month the column will be analyzed, that is, like

items will be added together and posted to the respective accounts in the same way as explained under expenses.

¶71. Expenses

The heading of the expense columns are exactly the same as those suggested for the Receipts and Disbursements method and therefore reference is made to ¶3 to ¶41, inclusive, for more detailed explanation. The only difference being that on the Cash Method the expenses are not entered until they are paid, and also a more complete analysis is suggested for the accrual method. This can be accomplished without the use of additional columns by going back over each column at the end of the month and listing like items together. As an example, take "Use and Occupancy," the total of the column is \$163.85 made up of the various items as follows:

Rent -----	\$100.00
Telephone and Telegraph-----	35.50
Heat, Light and Water-----	13.35
Janitor Service -----	15.00
	<hr/>
Total -----	\$163.85
	<hr/> <hr/>

These items would be listed at the bottom of the column and posted to the General Ledger from there.

¶72. Balancing Accrual Method Cash Journal

Reference is made to ¶62 and the suggested headings for the various columns of the form which

heads that paragraph. If this form is followed, the sum total of the following debit or charge columns, namely:

- Col. 1. Deposits
- “ 6. General Ledger Debits.
- “ 8. Patients Accounts Charges
- “ 10. Accounts Payable Debits.
- “ 12. Personal Account Debits.
- “ 16. Use and Occupancy.
- “ 17. Salaries.
- “ 18. Books, Stationery and Supplies.
- “ 19. Auto Expense.
- “ 20. Blank.
- “ 21. Sundry.

Should at all times equal the sum total of the following credit columns, namely:

- Col. 2. Checks.
- “ 7. General Ledger Credits.
- “ 9. Patients Accounts Credits.
- “ 11. Accounts Payable Credits.
- “ 13. Personal Account Credits.
- “ 14. Fees.
- “ 15. Miscellaneous Income.

which should balance not only at the end of each page, but also on every line.

SECTION II

COLLECTIONS

¶73. With Whom to Open the Account

Always see that the account on the Ledger Sheet is opened in the name of the person who is being held responsible for the payment of the bills. Even in the case of a wife, open the account in the name of the husband, unless the wife is independent financially and pays her own bills. It is a psychological fact that a bill made out to the person actually charged with the payment of it carries more weight with the debtor, in the vast majority of cases, than if made out to someone else, even if there is no question as to the responsibility for the payments.

Therefore when a new patient comes in it should be the duty of whoever has charge of the books, to find out who is to take care of the bills and to open the account in that name. Then all charges made to anyone for whom that person is financially responsible should be kept on that one Ledger Sheet.

¶74. What Charge Accounts Are

The object of having charge accounts is merely for convenience in transacting business, and is not intended to be for the purpose of financing anyone. Therefore when a charge account is opened it becomes another responsibility of the person accepting the account to ascertain that this is the

real reason for opening it. In the different branches of the Medical Profession, however, a certain amount of charity work is perhaps unavoidable, and it is not always known at first which are to be charity cases. In most instances though, a little judicious questioning when the case is accepted will soon reveal whether it is to be a charity case or not. If it is to be a charity case, there is nothing to be gained by opening an account in the Patients Ledger at all. All the necessary information can be contained on the "Case Record Card." Such Case Record Card should then be filed under a separate section titled "Charity Cases." It is certainly no use having the Patients Ledger contain a lot of accounts which, it is well known, will never be collected. This matter of "judicious questioning" may be done by the Doctor himself, and he is in an excellent position to do it, as he can inquire about relatives and ask other personal questions which seemingly would be merely as an aid to diagnosis, but which in reality will serve the dual purpose. If left to a third party such as the doctor's office assistant, the conversation should include a suggestion to the effect that in coming to the Doctor for professional services, a contractual obligation has been assumed, just as much as if merchandise instead of services were involved. This, of course, would have to be handled diplomatically, and would be better to be done by inference rather than by direct statement. The most satisfactory way to stress this contractual relationship is to ask for and receive a definite understanding as to how the account will be taken care of.

¶75. Definite Understanding Regarding Payments

There need be no embarrassment about asking for terms of payment. A straightforward, "How do you wish to take care of the Account" is just as applicable to the sale of services as it is to the sale of merchandise. And if the Patient has other charge accounts; and most of them have of one kind or another; words to this effect have been heard many times. Because the personal relationship is much closer in the sale of services than it is in the sale of merchandise, does not alter the fact that basically the conditions are exactly the same. Namely that value is being sold today for which payment is expected in the future. And herein lies one of the reasons that members of the Medical Fraternity are generally looked upon as being poor business men. If the mental attitude of the seller is one of diffidence regarding the discussion of the terms of payment, it is only natural that an attitude of indifference to it is created in the mind of the buyer. While physicians, of all people, should realize the truth of this psychology, and probably do, as a class they have ignored it. In fact here is where the first change must come, from within the profession, before any change in the public attitude of "paying the doctor last" can be expected. And the logical place to start this change is for each individual practitioner to do his part and to see that there is an explicit understanding, a definite meeting of the minds, as to the amount of the charges and the terms of payment in every case accepted. This does not mean that the profession would develop into a profession of

Shylocks, neither does it mean that charity cases will not continue to be accepted. But it does mean that when any charity case is taken it is known in advance that it is a Charity case, not only by the Doctor but by the Patient. There are any number of people who would not accept charity as such, but who have no hesitation in forgetting the payment of their bills. If every one realized that there were but two classes of patients "Charity" and "Pay," personal pride would be of real assistance to the Doctor in keeping down the amount of the losses and charity to a reasonable figure. When the terms of payment have been arrived at, a notation of them should be made on the Ledger Sheet, so that they will not be forgotten.

¶76. Monthly Statements

The Patient is entitled to, and should receive, a statement of the account at least once a month. The practice of only sending out statements at very irregular intervals is not only unbusiness-like, but it is unfair both to the Doctor and to the Patient. It is unfair to the Doctor because it keeps him out of the use of the money, and even if the money is not really needed and the ultimate collection absolutely certain, it is still unfair. Because the 5% or 6% interest the money could be earning would soon pay many times the cost of sending the statements out, and still leave a profit. It is unfair to the Patient because if in ignorance of the amount owing, the natural tendency is to forget it. Moreover, the longer it goes the harder it is to pay it. Remember nobody likes to "pay for a dead horse" and if state-

ments are not mailed out regularly, the item soon becomes a "dead horse" in the mind of the debtor.

¶77. When to Mail Statements

The general rule is that statements should be mailed once a month, preferably on the last day of the month, so that they will be received by the Patients on the first day of the succeeding month. The truth of the proverb that "the early bird catches the worm" has been proved as being particularly applicable to collections. This is easily understandable when one stops to consider that a statement arriving when the money is on hand stands a lot better chance of being paid, than one arriving when there is a doubt as to whether there is enough cash on hand to carry on until next pay day. Make it a rule therefore that statements must be in the mail on the last day of the month. Like all good rules though, this one also has its exceptions. In cases where the understanding has been that payment will be made on dates other than the first, it not only does no good to mail a statement then, but it positively does harm, as it tends to create an antagonistic feeling in the mind of the recipient. The best way to keep track of these odd day payments is, in addition to making the notation on the individual's account sheet, to keep also a date index system like that illustrated on page 94, and to put a notation of the name and amount of payments due in a date section preceding by two days that on which they fall due. Then look through the file each day and

mail those statements out which apply to that day, so that the patient receives the statement on the day, or the day before, the payment becomes due.



¶78. Guarantors

It often happens that someone gives a verbal guarantee, or what amounts to a guarantee, for the account of another, but when actual payment of the bill is requested collection cannot be made. In all cases therefore, where one person guarantees the account of another for whom there is no actual legal responsibility, the only thing to do is to get that guarantee in writing. This does not have to be in any particular legal form, anything which states the fact will do. A letter from the guarantor would be perfectly satisfactory, or some such statement as "I hereby authorize Dr. _____ to charge to my account such services as may be necessary (or specific if such is demanded) to be performed for Bill Jones, signed _____" or "I hereby guarantee the account of Bill Jones up to and including \$ _____ Signed _____." These could be written on the Doctor's letterhead, and would

save any arguments when the bill was presented. They can be obtained if asked for at the time with the statement that office routine requires it.

¶79. Amount of Charges

“Half a loaf is better than no bread,” and it is therefore much better to make a charge that will be paid than to make one which by its size discourages the patient from even trying to pay it. Because this is a fact, when the average person gets into debt so far that they cannot see how they are ever going to pay it, they stop making any attempt. With services then it is much better to charge \$10.00 and get it, than it is to charge \$100.00 and get nothing. The patient’s ability to pay should be the basis of the charges.

While the individual practitioner is hardly in a position to ascertain the financial status of his patients, he has at his disposal, in many cities, an organization which is in a position to obtain such information, namely the Medical Finance Companies. Furthermore, if these Medical Finance Companies in the different cities could be organized to co-operate with each other in credit, collection, and financial status information, an almost invaluable service to the Medical World could be rendered.

¶80. Medical Finance Companies

One of the means devised for assisting both the Doctor and the patient from the financial angle, is the plan of Medical Finance Companies which are in operation in many different cities. This plan

in brief is as follows: "A company composed of local Medical and Dental doctors is organized for the purpose of loaning money to desirable patients for medical, surgical or dental services. Subscribing members have the right to send patients to the Finance Company, who loan them the required amount on the security of their note with two endorsers. This note bears interest at the rate of 8% and is repayable in weekly or monthly installments. The Doctor receives 95% of the face of the note immediately and, as he is not an endorser on the note, he is in no way responsible for the payment. This 5% discount may represent a saving to him as it avoids the necessity of making the monthly collection. This plan also is an assistance to some patients as it permits them to have necessary work done immediately and to spread the payments over a year.

¶81. Synopsis of Collection System

As with anything else there must be a system in order to effectively maintain collections, and no matter what system is used it must be followed, and followed consistently, or it is of absolutely no value. A poor system that is followed is much better than a good system that is not followed. To facilitate the understanding of the suggested system of collections outlined here, the main points are summarized as follows:

1. Keep all accounts posted as nearly up-to-date as possible.
2. Have only one account sheet for each person responsible for charges.

3. Come to definite understandings regarding payments.
4. Make notation of these terms on individual Ledger sheet.
5. Obtain written confirmation from guarantors of accounts they guarantee.
6. Obtain sufficient information regarding patients as will permit their being located if they move.
7. Mail statements regularly.

¶82. Collection Agencies

It is the author's opinion that resort should be made to Collection Agencies only when all other means have failed, and then great care should be exercised in the selection of the agency, as the indiscriminate placing of accounts in their hands is liable to do much more harm than good. It is believed that if the suggestions contained here are followed there will be little need to turn over accounts to them at all, and this opinion is strengthened by the fact that it is the exception when the name of a well managed business is found among the clients of a collection agency. And Physicians, being their own business managers, have the power to see that their's is a well managed business.

¶83. Statement Stickers

The use of stickers on statements of past due accounts sometimes proves effective, and are better than the common "Please Remit" which is not only liable to cause offense, but by its constant use has lost much of its power. Such "stickers" are

made by different manufacturers and are carried in stock at most stationery stores. The best system of collection "follow ups" though, are undoubtedly the personal call, telephone calls and letters. Some suggested forms of letters are given here:

¶84. Requirements of Collection Letters

Individuality is a letter's strongest point, and therefore anything savoring of the stereotype should be avoided as far as possible. The verbatim use of the sample letters given here is not advised for that reason, and also because they are not written with that use in view, but merely for the purpose of illustration and suggestion. In the construction of a collection letter the personality of the debtor should be considered, as the same tactics that succeeded in one case would not necessarily succeed in another. And here is where the Physician has a tremendous advantage over the business house, as he is personally acquainted with every one of his patients, and therefore should experience no such difficulty as is experienced by collection managers of large business houses in their attempt to visualize their correspondents. Briefly, a collection letter should be a straightforward request for payment without containing any excuses for making that request. No excuse is necessary and statements to the effect that "we need the money" very often detract rather than add to the force of the letter. Any attempt at witticism should be avoided as what might seem funny to the writer would not seem funny to the recipient. Moreover, any form of banter or excuse in a collection letter,

besides actually hurting the value of the letter, certainly does not tend to raise the dignity of the writer. But a straightforward request for payment not only preserves the dignity of the Doctor, but admits the intelligence of the debtor.

¶85. Four Sample Letters

In any form of collection letters, the object should be not only to get the money, but also to retain the good-will of the debtor. Therefore the first letter should avoid, as far as possible, any suggestion of curtness or anger.

A. M. PHYSICIAN, M.D.

Health Center,
Missouri

May 8, 19__

Mr. Wm. Smith,
City

Dear Mr. Smith:

As we are convinced that you are a man of your word, we do not think that you have forgotten the fact that you promised to pay us \$15.00 on Tuesday, May 5th.

So we feel that something unforeseen must have come up, but that you felt embarrassed about coming in and telling us.

Do not feel this way about it; we realize things will occasionally happen to us all to prevent us doing what we want to do, and if you will come up to the office within the next couple of days, we know that we can arrange these matters satisfactorily.

Can you come today?

Yours sincerely,

The second letter will be stronger than the first, and should follow in about a week, and in some cases four or five days would be even better.

A. M. PHYSICIAN, M.D.

Health Center,

Missouri

May 15, 19__

Mr. Wm. Smith,
City.

Dear Mr. Smith:

We cannot conceive what can possibly have happened to stop you from coming up to see us regarding the \$15.00 payment which was due us on May 5th, or at least to have acknowledged in some way our letter of May 8th.

Justice, both to yourself and to us, demands that these obligations be taken care of, and therefore we are going to ask you again to be kind enough to come up to the office and talk the matter over so that we can both know where we stand.

Will you at least get in touch with us today?

Yours sincerely,

If no reply has been received to the second letter, the inference is that there is a disinclination to pay or at least that the patient is very careless. The third letter can therefore be a step stronger than the second and should follow the second in four days to a week.

A. M. PHYSICIAN, M.D.

Health Center,

Missouri

May 22, 19__

Mr. Wm. Smith,
City.

Dear Mr. Smith:

We are reluctant to believe that you really want to sidestep your obligations, but if you were in our position what would you think?

The \$15.00 payment you promised us on May 5th is more than two weeks overdue, and no reply has been received to either of our letters of May 8 or 15.

So if the situation was reversed and you were in our place what would you do?

Wouldn't you begin to lose patience?

However we are trying not to, and are still hoping that you want to live up to your agreement.

Won't you come in and see us and justify our confidence in you?

Yours sincerely,

If no reply has been received to the other letters, there is no alternative but to make the fourth one strong.

A. M. PHYSICIAN, M.D.

Health Center,

Missouri

May 30, 19__

Mr. Wm. Smith,
City.

Dear Mr. Smith:

Ignored—that is really the only word we can use to describe our understanding of your attitude to our three letters regarding the \$15.00 payment you promised to make us on May 5th.

You know it costs us money to write letters, at least 25c a letter everything considered; and we don't feel that we are accomplishing anything with them in your case.

Therefore if we do not hear from you on or before June 3rd, you will leave us no alternative but to turn the account over to somebody who will use considerably sterner measures.

We do have charity cases, however, and if you think you are entitled to charity, come in and explain your situation and, if we agree, we will give you a receipt in full.

But we must have some action by June 3rd at the latest.

Yours sincerely,

SECTION III

INCOME TAXES

¶86. General

The sum and substance of all Income Taxes, whether Federal or State, is that the Government assessing the tax is a partner in each enterprise and as such is entitled to its share of the profits, and therefore it is necessary to know exactly what those profits are.

The Federal Government requires the return for all Professions to be made on Form 1040, which is the large individual return, regardless of the amount of the Income or the loss. And as practically all the States which have Income Taxes have based their law and regulations on those of the Federal Government, it is easier to make out the Federal Return first, and then to pick up the figures for the State return from it, as usually there are only a few minor differences in the allowable deductions.

Always keep a copy of all tax returns and have a proof of all the figures which appear on them. This is for the reason that the Government has the right, not only to examine the returns but also to demand a proof of their correctness. Section 41 of the Revenue Act of 1928 reads in part as follows:

“The net income shall be computed upon the basis of the taxpayer’s annual accounting period (fiscal year or calendar year, as the case may be) in accordance

with the method of accounting regularly employed in keeping the books of such taxpayer; but if no such method of accounting has been so employed, or if the method employed does not clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the Commissioner does clearly reflect the income.”

While the black face are ours, this gives the Commissioner great latitude in cases where no books, or very incomplete books, are kept.

¶87. Obtaining the Figures

For the purposes of illustrating the preparation of the return the presumption is made that the Cash Journal form illustrated on the insert between pages 22 and 23 is being used and that the figures for the year are as follows:

Col. 9.	Drawings -----	\$ 9,640.52
“ 10.	Personal Credits -----	2,420.93
“ 11.	Fees -----	31,750.75
“ 12.	Use and Occupancy -----	2,441.70
“ 13.	Salaries -----	4,500.00
“ 14.	Books and Stationery -----	1,115.00
“ 15.	Auto Expense -----	1,160.55
“ 16.	Medical Supplies -----	1,450.00
“ 17.	Sundry -----	1,198.59

The first thing to do is to take a separate sheet, preferably a columnar sheet, and make what is called an analysis of all the above columns except “Fees,” “Auto Expense,” and “Medical Supplies.” This “analysis” means to bring together amounts expended for like purposes during the

year. It would make too long a book to have a column for each expense such as Rent, Telephone and Telegraph, etc., which are only required to be separated for Income Tax purposes, therefore if no general ledger is kept showing these accounts separately it is necessary to make this distinct classification at the end of the year. And as it only takes a few hours at each year end, it is easier, and less work, to make this analysis once a year than it is to keep a General Ledger. The way it is done is to head up Columns for the various classifications desired and to go back over the columns of the Cash Journal and put each amount in its respective column on the sheet, for example, if the Use and Occupancy column in the Cash Journal was made up of Rent \$1,800, Telephone and Telegraph \$521.70 and Janitor Service \$120.00, a column would be headed for each of these classifications on the work sheet and the different monthly charges entered in their respective columns and totaled. The sum of these totals should then agree with the total of the column in the Cash Journal. These figures could then be entered on the Cash Journal under the column they represent, like this:

	Use and Occupancy
Total -----	\$2,441.70 <u> </u> <u> </u>
Rent -----	\$1,800.00
Telephone and Telegraph-----	521.70
Janitor -----	120.00 <u> </u>
Total -----	\$2,441.70 <u> </u> <u> </u>

There is then a permanent record of this analysis always available.

The analysis then of the year's totals are:

Drawings

New Car -----	\$1,500.00
Personal -----	8,140.52
	<hr/>
Total per Cash Journal -----	<u><u>\$9,640.52</u></u>

Personal Credits

Interest Bank Deposits -----	\$ 400.00
Dividends "A" Company -----	1,000.00
Interest City Bonds -----	250.00
Expenses paid personally -----	770.93
	<hr/>
Total per Cash Journal -----	<u><u>\$2,420.93</u></u>

Use and Occupancy

Rent -----	\$1,800.00
Telephone and Telegraph -----	521.70
Janitor Service -----	120.00
	<hr/>
Total per Cash Journal -----	<u><u>\$2,441.70</u></u>

Salaries

Nurse Assistant -----	\$1,800.00
Office Assistant -----	1,500.00
Chauffeur -----	1,200.00
	<hr/>
Total per Cash Journal -----	\$4,500.00
Less ½ Chauffeur's Salary -----	600.00
	<hr/>
Salaries Deductible -----	<u><u>\$3,900.00</u></u>

Books and Stationery

Instruments -----	\$ 95.00
Postage -----	260.00
Magazines -----	65.00
Office Supplies "Miscellaneous" -----	695.00
Total per Cash Journal -----	<u>\$1,115.00</u>

Sundry Expenses

Taxes

State Income -----	\$ 23.44
Federal Income -----	341.90
Personal Property -----	281.50
Auto Licenses -----	48.00
	<u>\$ 694.84</u>

Association Dues -----	175.00
Employers Liability Ins. -----	10.00

Donations

Y. M. C. A. -----	\$ 50.00
Church -----	100.00
Local Charities -----	100.00
	<u>250.00</u>

Insurance on Professional Car	68.75
Total per Cash Journal -----	<u>\$1,198.59</u>

All the figures necessary to prepare the return, with the exception of Depreciation, have now been obtained. Depreciation is discussed under the succeeding paragraph. As "the expenses paid personally" of \$770.93 listed under "Personal Credits" are already in the expenses this figure will not appear, as such, on the Income Tax Return.

¶88. Depreciation

There are various ways of computing depreciation—which briefly is the shrinkage in value due to wear and tear—but only one method is being considered here, and that is what is known as the straight line method. This is the simplest and most commonly used method as it uses a fixed percentage of the cost price each year. Theoretically, this cost price should be reduced by the estimated salvage value and the percentage taken on the balance, but in actual practice this is not very often done, the entire cost price being depreciated and adjustment made of any difference when the article is disposed of. In order to keep a record of the cost price of depreciable assets and the depreciation which has been written off against them, it is suggested that a small book be procured and that each article be listed therein, together with the amount of the depreciation which has been charged off each year, like this:

ARTICLE	Date Purchased	Cost	DEPRECIATION Rate				
				1928	1929	1930	1931
Hudson Coupe	5-25-27	\$1,300.00	25%	\$325.00			
Typewriter	4-31-27	105.00	10%	10.50			
“ Desk	4-31-27	85.00	10%	8.50			

In this way there is not only a record of the depreciation which has been taken off each year but also a complete inventory of what are known as the Physical or Depreciable Assets. Such an inventory might prove itself of great assistance in many ways, such as the adjustment of a fire loss, the closing out of an estate, etc. And after it has

once been started it only takes a minute to enter up the purchases as they are made, and even that time is saved at year ends when the figuring of depreciation becomes necessary. Because by having all the depreciable assets in one place the computing of the amounts of depreciation not only becomes a very simple matter, but the danger of overlooking some items and thereby losing the benefit of the depreciation on them, is eliminated. The rate of depreciation is based on the estimated life of the article. If it is estimated that the useful life of the article would be ten years, then the rate of depreciation would be 10%, if five years, then 20%, or if twenty years, 5%. The author is of the opinion that it is not possible to make a hard and fast rule for the depreciation rate for any equipment, because, at the best depreciation is an estimate based on an expectancy, and also because identically the same equipment might have a very different life in two different hands. However, here we are dealing with Revenue Laws and therefore for tax purposes the following rates are suggested:

Books	-----	20%
Office Furniture	-----	10%
Instruments		
(Medical, Surgical and Dental)	-----	5% to 10%
Automobiles	-----	25%

The variance in the medical and surgical instruments will be individual in each case and should be governed according to whether the expected life will be nearer to ten years or twenty.

¶89. Making the Return "Schedule A"

Always fill out the duplicate or working copy first, and it is better to use a pencil and then ink in the figures afterwards. Turn to the second page of the return "Schedule A—Income from Business or Profession" and on the line provided write "Physician," "Surgeon," "Dentist" as the case may be.

Line 1

"Total receipts from business or Profession" which amount would be the total of the "Fees" Column for the year. In this hypothetical case the total is ___\$31,750.75

Lines 2 to 9, Inclusive

The professions would not need to make any entry on these lines. They are only for providing space for computing the cost of goods sold where sales are the income producing factor. Ordinary medical, surgical or dental supplies used merely as an incident to the profession do not come under this head.

Line 10. Salaries _____\$ 3,900.00

The analysis of the Salaries column in the Cash Journal showed that there was \$1,200.00 salary paid to a chauffeur whose time was employed approximately one-half for personal and one-half for professional requirements. His salary is therefore divided in that ratio, and half of it

claimed as a deductible expense. The salaries of the nurse and office assistants are fully deductible.

Line 11

Interest on business indebtedness. As capital is not an income producing factor there will not be much interest which is interest on "business indebtedness." About the only exception would be if equipment had been purchased on installments and interest was being charged for this privilege. Such interest would be entered here. But interest on house mortgages or borrowed money would be entered as Item 11 on the face of the return.

Line 13. Losses by fire, storm, etc.

This is one of the reasons that it pays to keep a record of the cost of all assets, because without such a record it is hard to prove any loss. If there is such a record and a fire, storm, or theft occurs and there is no insurance, then the cost of the article or articles less any depreciation which has been written off in former years, is deductible here, if it applies to the profession. If it does not apply to the profession but to the personal, then it is deductible as Item 13 on the face of the return.

For example, the professional automobile costing \$1,750 has had deprecia-

tion in the sum of \$437.50 charged against it when it burns up, and the insurance company pays \$1,000.00 for the loss under their policy, the amount deductible here is \$312.50. Repairs to the professional automobile on account of accident would of course be deductible. These facts would be detailed in place provided on form. Losses sustained from damage to a pleasure automobile are deductible, but these would be shown as Item 13 on the face of the return instead of here.

Line 14. Bad Debts arising from Sales or Services

If the accounts are kept on the Receipts and Disbursements Method, there will be no Bad Debts for the reason that the Fees are not brought into Income until the actual cash is received. But if the books are kept on the accrual method and the Fees brought into Income as and when earned, then any of the patients accounts which are not collectible may be charged off here. In cases like this it is advisable to make a journal entry on the books showing in detail the names and amounts of those charged off.

Line 15. Depreciation, Obsolescence and Depletion

There will be no depletion as here the words means the exhaustion of mines, oil wells, etc. The rates of depreciation ex-

plained under ¶88 are supposed also to take care of the obsolescence. However, if any professional equipment becomes obsolete before being entirely depreciated, the amount which has not been written off may be deducted here with a note of explanation as to why it was deducted, attached to the return.

In order to obtain depreciation figures for this illustrative return the following valuations are assumed:

Office Furniture -----	\$1,050.00
Professional Equipment -----	1,750.00
Books -----	1,000.00
Automobile -----	1,875.00

The price of \$1,875.00 on the automobile was arrived at in the following manner: The list price of the car was \$2,000.00, there was \$1,500.00 paid in cash and charged in the personal drawing account in May and \$500.00 was allowed on the old car. This old car, however, had been reduced by depreciation until it was only worth \$375.00 as far as the books were concerned. Therefore the \$1,875.00 is made up of:

Cash Payment, May 25, 1928 -----	\$1,500.00
Value of Old Car -----	375.00

Actual Cost of New Car -----	\$1,875.00

There is no need of reporting the apparent profit of \$125.00 in cases like this

as the automobile was held for "productive uses" and therefore comes within the purview of I. T. 2356 which recognizes no gain or loss in the exchange of such property for property of a like kind or use.

Chargeable Depreciation therefore is:

Office Furniture -----	10 %	\$105.00
Professional Equip. -----	10 %	175.00
Books -----	20 %	200.00
Automobile		
25 % of \$1,875.00		\$468.75
Purchased 5-25-28 or ½ year---		234.37
		<hr/>
Total -----		\$714.37

This sum total, or \$714.37, would be entered on line 15 and the detail just as shown above would be entered in the "Explanation of Deduction for Depreciation" provided on the form.

Line 16. Rent, Repairs and Other Expenses -----\$3,810.45

The figures necessary for this line have been obtained from the analysis of the Expense Column of the Cash Journal as shown under ¶87. Very often there is not enough space to enter all the items on the two lines given on the form for the "Explanation of Deductions claimed on Lines 5 and 16." If there is not enough space make it on an extra sheet and attach it. Even if there are only a few items it is better to put the figures on an ex-

tra sheet first as it is always hard to cross-add figures. The amounts which will be entered here are those which apply solely to the profession, in this case.

Rent -----	\$1,800.00	
Telephone and Telegraph-----	521.70	--
Janitor Service -----	120.00	
Instruments (Short Life)-----	95.00	
Postage -----	260.00	
Magazines -----	65.00	
Office Supplies and Miscl.-----	695.00	
Association Dues -----	175.00	
Employees Liability -----	10.00	
Professional Car Insurance-----	68.75	
	<u> </u>	
	<u>\$3,810.45</u>	

Line 17

The figures appearing on Lines 10 to 16, inclusive, will be added together and entered on line 17. The same total will also be carried to

Line 18

which in this case is-----\$8,424.82 and this amount will be deducted from the fees of \$31,750.75, which will give the figure to put on

Line 19

which is the difference between the professional income and purely professional expenses and in this case is-----\$23,325.93

This figure is then entered on Line 19 and is also carried to Item 2 on the face of the return.

¶90. Making the Return, Items 1 to 18, Inclusive

Item 1. Salaries

This would ordinarily not apply to members of the professions, because such amounts as retainers paid by corporations for medical service to their employees, and insurance companies for examination of applicants, would come under the heading of "fees" and would be treated as such.

Item 2. Income from business or profession

Here will be entered the amount which appears on Line 19 of Schedule "A" which is the net income from the professional services -----\$23,325.93

Item 3. Interest from Bank Deposits, Notes, etc.

All interest received from Bank Deposits, Notes, (whether from Patients or not) Mortgages, Corporation Bonds, (except those on which the Company agrees to pay the income tax up to 2%) will be entered here. If there is any interest which has been received but which has not been entered on the professional books, then a detail of the amounts should be preserved. Dividends on Preferred

Stock are Dividends and not interest, even though they are paid in monthly or quarterly installments. Interest received from any City or State or other political subdivision, or from certain other securities listed on Schedule E of the return are exempt from any tax. Therefore the \$250.00 interest need only be shown on Schedule E subdivision (a).

(a). Interest on Tax-Free Covenant Bonds

To include the interest received on Corporation Bonds which carry a clause to the effect that Federal Income taxes up to 2% will be paid by the company. If the net income after exemptions exceeds \$4,000.00 form 1,000 should be filed which gives the bond holder the benefit of the full 2%. If the Bond holder files form 1000A the credit is limited to 1½%, and if he files form 1001 he cannot claim any credit at all.

Item 4. Income from Partnerships and
Fiduciaries

The amounts entered here must correspond with the taxpayers share as shown on the Partnership or Fiduciary return. It is therefore advisable to obtain such figures from those in charge of the partnership, or the Trustees as the case may be.

Item 5. Rents and Royalties

(See instructions under Item 6).

Item 6. Profit from Real Estate, Stocks, Bonds, etc.

If there is income of any consequence from any of these sources it is suggested that advice be obtained from someone who understands the technicalities of the Income tax laws. If, however, the income is confined to, say, rent from an upper part of a duplex while living in the lower, the total amount of the rent would be reported in Schedule B and all expenses applicable to the upper part deducted therefrom. If one heating plant only is used then one-half of the fuel cost would be allocated to the rental portion. One-half of the depreciation rate on the house, which rate would be from $1\frac{1}{2}\%$ to 3% , could be claimed as a deduction.

Item 7. Dividends on Stock of Domestic Corporations

Dividends received on stocks of Corporations of the United States are only subject to surtax and therefore will be deducted from the net income subject to the normal tax by entering as item 32 under the Computation of Tax. All earnings from Stocks, except of course profits from the sale, are dividends even if the stocks are Preferred and carry a guaranteed specific percentage per annum, which percentage might be paid in different in-

stallments. They are still dividends and not subject to Normal Tax.

Item 8. Taxable Interest on Liberty Bonds

The table for the computation of the taxable interest on Liberty Bonds is given in Schedule E. Briefly this is that the interest on all over \$5,000.00 worth of Liberty Bonds is subject to surtax. None are subject to normal tax, and the First Liberty bond known as Liberty 3½% is entirely exempt.

Item 9. Other Income

These spaces are provided for reporting income which is not specifically provided for on any of the above lines, such as recoveries of any amounts charged to losses in previous years, or any other item of taxable income.

Item 11. Interest Paid

Practically all interest paid is deductible, whether it is interest paid on a house used as a residence, or whether on borrowed money. The only exception is interest on money borrowed to purchase or carry securities, the interest from which are not taxable. For example, if money is borrowed to purchase or carry municipal bonds, the interest on that borrowed money would not be deductible.

Item 12. Taxes Paid

All taxes paid are an allowable deduction from gross income except the Federal Income taxes themselves. The State Income taxes are an allowable deduction from the Federal return and usually both the Federal and the State Income Taxes are deductible on the State Return. Automobile Licenses are a tax, taxes on admissions and dues, such as on Golf Club Dues, should be included among the taxes.

Item 13. Losses by fire, storm, etc.

Allowable deductions under this classification are very often overlooked by individual taxpayers. For example, the repairs made necessary by a water pipe bursting in one's own residence would be deductible under this section. Also as a result of the case of *Shearer vs. Anderson* it was announced in I. T. 2363 that losses from damage to one's own pleasure automobile are deductible. Inconsistently, however, damages paid to another on account of an automobile accident are not deductible. Losses resulting from thefts of any kind would be deducted here, if they were thefts of personal belongings, if of professional property then on line 13 of Schedule "A."

Item 14. Bad Debts

The Bad Debts to be charged off here are the bad debts arising from personal transactions, as for example, money loaned to a friend, whether on a note or not, would be deducted here if collection could not be made. If the money was given to him with no expectation of it being repaid it could not be deducted as then it would be in the nature of a gift, and would not be deductible either as a bad debt or as a donation.

Item 15. Contributions

In order for deductions for contributions to be allowable they, like everything else on the return must be susceptible of proof, not only as to the amount paid, but also that the recipient comes within one of the classifications, which are enumerated in Regulations 69, Article 251 and also briefly under the instruction 15, form 1040.

These in short are:

That it must be an **organization** which depends principally on voluntary offerings for its support and no part of any profits of which inure to the benefit of any individual or individuals.

Must be provable both as to amount paid and recipient.

Contributions to a Foreign Corporation are deductible by residents of the United States in the same way as if made to a domestic corporation.

15% Limitation means 15% of the net income before considering any deduction for donations, but in arriving at this net income any "capital losses" must be included as part of the allowable deductions.

Pledges to charitable organizations are not deductible until actually paid where returns are made on Receipts and Disbursements method.

Partnership Contributions are deductible by the partners on their individual returns in the same proportion as their shares of the partnership.

Item 16. Other Deductions Authorized by Law

Under this heading would come such losses as those arising from speculation, but if stock is bought outright there must be a bona fide sale, or else the company must be completely bankrupt and have ceased business, before a loss can be claimed. If the stock is sold and re-purchased in whole or in part within 30 days no loss can be claimed. This 30 day limitation, however, does not apply to losses sustained in the sale of securities which

have been purchased on the margin. Many losses of this nature have been disallowed because of insufficiency of proof, it is therefore very necessary to keep absolute proof of all losses from such sources. If a net loss is sustained in any one year it can be deducted in whole or in part for the two succeeding years and the amount would be deducted under this caption.

Item 17

Is the sum total of items 11 to 16, inclusive, which being deducted from the Total Income, Item 10, gives the Net Income which is entered as Item 18.

¶91. Computation of Tax

Under the Revenue Act of 1928, the amount subject to the earned income credit shall in no cases be less than \$5,000 nor more than \$30,000. This means that if the entire Net Income is \$5,000 or less, then it is all considered to be Earned Income no matter from what sources it may be derived, and if the entire net income is more than \$5,000 then the earned net income shall not be considered to be less than \$5,000. If the Net Income is more than \$5,000 then ordinarily the Earned Net Income will be that amount which appears as Item 2 on the face of the return and carried from Line 19 of Schedule "A." From this amount will be deducted the personal exemption and credit for dependents. The remainder, which is entered as Item 21, will then be divided into two \$4,000 items, one each of

which will be entered as items 22 and 23. The balance between this \$8,000.00 and the amount appearing as Item 21 will be entered as Item 24. The amount of the tax is then computed on these items and entered in the spaces provided. These amounts shown as Items 25 to 28 are then added together and entered as Item 29. The credit of 25% of the tax on account of earned Income is, however, limited to 25% of the normal tax on the entire net income subject to normal taxes plus 25% of the surtax on the earned net income, and therefore the amount to be entered as Item 30 does not necessarily mean 25% of Item 29. The quick way to find out which governs is by comparing Items 27 and 44. If Item 44 is the same or greater than Item 27 then the credit will be 25% of Item 29. If Item 44 is less than Item 27 then the credit will be 25% of the sum of Items 28, 42, 43 and 44.

The figure shown as Item 18, Net Income, will be entered as Item 31 from which will be deducted the dividends, interest on Liberty Bonds, Personal Exemption and credit for dependents. The remainder will be split into two \$4,000.00 items and the difference between the \$8,000.00 and Item 37 will be entered as Item 41. Possibly the easiest way to obtain 1½% is to point off two figures and add half of the result. For instance 1½% of \$2,965.25.

\$29.6525
14.8262
<hr style="width: 100%;"/>
\$44.4787
<hr style="width: 100%;"/>

then $1\frac{1}{2}\%$ for taxable purposes would be \$44.48. To obtain the 3% point off two figures and multiply by 3. To obtain the 5% point off one figure and divide by 2. The surtax is computed in accordance with a table of rates which is given on the instruction part of the return. If there is any Capital Net Gain or loss, it is suggested that personal advice be obtained. Briefly Capital Net Gain or Loss means the profits or losses applying to sales consummated after December 31, 1921, on assets held for more than two years. It is optional with the taxpayer whether he takes advantage of this section or not and as the tax on Capital Gain is $12\frac{1}{2}\%$ it would not pay him to do it unless his income is approximately \$25,000.00. The Income Tax paid at source is the 2% on tax free covenant bonds listed as Item 3 (a).

¶92. Specimen Federal Return

In order to further illustrate the preparation of the Federal Return a specimen return is filled out from the figures used in the preceding paragraphs in this section. This Return is prepared in accordance with The Revenue Act of 1928, and is shown on pages 126 and 127.

INDIVIDUAL INCOME TAX RETURN

Do Not Write in These Spaces

FOR NET INCOMES FROM SALARIES OR WAGES OF MORE THAN \$5,000
OR INCOMES, REGARDLESS OF AMOUNT, FROM BUSINESS, PROFESSION, RENTS, OR SALE OF PROPERTY

1928
For Calendar Year 1928

File This Return With the Collector of Internal Revenue for Your District on or Before March 15, 1928

(PRINT NAME AND ADDRESS PLAINLY BELOW)

A. M. PHYSICIAN

(Name)

1941 Medical Arts Bldg.

(Street and number, or rural route)

Health City

(Post office)

Jackson

(County)

Missouri

(State)

Occupation, Profession, or Business **Doctor**

File Code _____

Serial Number _____
(Cashier's Stamp)

Cash Check M. O. Cert. of Int. First Payment

\$ _____
Carded

As _____

- Are you a citizen or resident of the United States? **yes**
- If you filed a return for 1926, to what Collector's office was it sent? **Sixth Dist. Mo.**
- Is this a joint return of husband and wife? **no**
- State name of husband or wife if a separate return was made and the Collector's office where it was sent **Laura K. Physician Sixth Dist. Mo.**
- Were you married and living with husband or wife on the last day of your taxable year? **yes**
- If not, were you on the last day of your taxable year supporting one or more persons living in your household who are closely related to you? **----**
- If your status in respect to questions 5 and 6 changed during the year, state date and nature of change. **no**
- How many dependent persons (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective were receiving their chief support from you on the last day of your taxable year? **2**

Item and Instruction No.	INCOME	Amount received		Expenses paid (Explain in Schedule F)					
		\$		\$					
1. Salaries, Wages, Commissions, etc. (State name and address of person from whom received)		\$		\$					
4. Income from Business or Profession. (From Schedule A)						23	325	93	
3. Interest on Bank Deposits, Notes, Corporation Bonds, etc. (except interest upon which a tax was paid at source)								400	00
(a) Interest on Tax-free Covenant Bonds Upon Which a Tax was Paid at Source									
4. Income from Partnerships. (State name and address)									
(a) Income from Fiduciaries. (State name and address)									
3. Rents and Royalties. (From Schedule B)									
6. Profit from Sale of Real Estate, Stocks, Bonds, etc. (From Schedule C)									
7. Dividends on Stock of Domestic Corporations								1	000 00
8. Taxable Interest on Liberty Bonds, etc. (From Schedule E)									
9. Other Income (including dividends received on stock of foreign corporations). (State nature of income)									
(a)									
(b)									
10. TOTAL INCOME IN ITEMS 1 TO 9									24 725 00

Item	DEDUCTIONS	Amount received		Expenses paid (Explain in Schedule F)					
		\$		\$					
11. Interest Paid									
12. Taxes Paid. (Explain in Schedule F)								352	94
13. Losses by Fire, Storm, etc. (Explain in Table on page 2)								415	70
14. Bad Debts. (Explain in Schedule F)									
15. Contributions. (Explain in Schedule F)								250	00
16. Other Deductions Authorized by Law. (Explain in Schedule F)									
17. TOTAL DEDUCTIONS IN ITEMS 11 TO 16									1 018 64
18. NET INCOME (Item 10 minus Item 17)									23 707 20

COMPUTATION OF TAX (See Instruction 21)

19. Earned Net Income (not over \$30,000) 23325 93	31. Net Income (Item 18 above) \$ 23707 29	42. Normal Tax (1 1/2% of Item 38) \$ 60 00
20. Less Personal Exemption and Credit for Dependents (see Instruction 20) 4300 00	32. Less Dividends (Item 7 above) \$ 1000 00	43. Normal Tax (3% of Item 40) 120 00
21. Balance (Item 19 minus 20) \$ 19025 93	33. Interest on Liberty Bonds, etc. (Item 8) 3500 00	44. Normal Tax (5% of Item 41) 520 31
22. Amount taxable at 1 1/2% (not over the first \$4,000 of Item 21) \$ 4000 00	34. Personal Exemption 800 00	45. Surtax on Item 13 (see Instruction 21) 422 40
23. Amount taxable at 3% (not over the second \$4,000 of Item 21) 4000 00	35. Credit for Dependents 5300 00	46. Tax on Net Income (total of Items 42, 43, 44, and 45) \$ 1122 81
24. Amount taxable at 5% (balance over \$8,000 of Item 21) 11025 93	36. Total of Items 32, 33, 34, and 35 5300 00	47. Less Credit of 25% of Tax on Earned Net Income (Item 30) 274 91
25. Normal Tax (1 1/2% of Item 22) \$ 60 00	37. Balance (Item 31 minus 36) \$ 18407 29	48. Balance (Item 46 minus 47) \$ 847 81
26. Normal Tax (3% of Item 23) 120 00	38. Amount taxable at 1 1/2% (not over the first \$1,000 of Item 37) 4000 00	49. Adjustment for Capital Gain or Loss (12 1/2% of Column 9, Schedule D) --
27. Normal Tax (5% of Item 24) 551 30	39. Balance (Item 37 minus 38) \$ 14407 29	50. Total Tax (total of or difference between Items 48 and 49) \$ 847 81
28. Surtax on Item 19 (see Instruction 21) 399 56	40. Amount taxable at 3% (not over the second \$4,000 of Item 37) 4000 00	51. Less Income Tax Paid at Source --
29. Tax on Earned Net Income (total of Items 25, 26, 27, and 28) \$ 1130 86	41. Amount taxable at 5% (balance over \$8,000 of Item 37) \$ 10407 29	52. Income and Profits Taxes paid to a foreign country or U. S. possession --
30. Credit of 25% of Item 29 (not over 25% of Items 23, 42, 43, and 44) \$ 274 98		53. Balance of Tax (Item 50 minus Items 51 and 52) \$ 847 81

AFFIDAVIT

I swear (or affirm) that this return, including the accompanying schedules and statements (if any), has been examined by me, and to the best of my knowledge and belief is a true and complete return made in good faith for the taxable year as stated, pursuant to the Revenue Act of 1926, and the Regulations issued under authority thereof.

(If return is made by agent, the reason therefor must be stated on this line)

Sworn to and subscribed before me this _____ day of _____, 1928.



(Signature of officer administering oath)

(Title)

(Signature of individual or agent)

(Address of agent)

An amended return must be marked "Amended" at top of return

Checks and drafts will be accepted only if payable at par

SCHEDULE A—INCOME FROM BUSINESS OR PROFESSION (See Instruction 2)

Total receipts from business or profession (state kind of business) Doctor		\$ 31750 75	
COST OF GOODS SOLD		OTHER BUSINESS DEDUCTIONS	
Labor.....	\$.....	10. Salaries, exclusive of "Labor," reported on Line 2, and exclusive of compensation for your services.....	\$ 3900 00
Material and supplies.....	\$.....	11. Interest on business indebtedness to others.....	
Merchandise bought for sale.....	\$.....	12. Taxes on business and business property.....	
Other costs (itemize below or on separate sheet).....	\$.....	13. Losses by fire, storm, etc. (explain in table provided therefor at foot of page).....	
Plus inventory at beginning of year.....	\$.....	14. Bad debts arising from sales or services.....	714 37
TOTAL (Lines 2 to 6, inclusive).....	\$.....	15. Depreciation, obsolescence, and depletion (explain in table provided therefor at foot of page).....	
Less inventory at end of year.....	\$.....	16. Rent, repairs, and other expenses (itemized below or on separate sheet).....	3810 45
NET COST OF GOODS SOLD (Line 7 minus Line 8).....	\$.....	17. TOTAL (Lines 10 to 16, inclusive).....	\$ 8424 82
NOTE—Do not deduct here or elsewhere compensation for your services.		18. TOTAL DEDUCTIONS (Line 9 plus Line 17).....	\$ 8424 82
		19. NET PROFIT (Line 1 minus Line 18) (Enter as Item 2).....	\$ 23325 93

Explanation of deductions claimed on Lines 5 and 16.....

SCHEDULE B—INCOME FROM RENTS AND ROYALTIES (See Instruction 5)

1. KIND OF PROPERTY	2. AMOUNT RECEIVED	3. COST	4. VALUE AS OF MARCH 1, 1913	5. DEPRECIATION (Explain in table at foot of page)	6. REPAIRS	7. OTHER EXPENSES (Itemize below)	8. NET PROFIT (Enter as Item 5)
	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....

Explanation of deductions claimed in Column 7.....

SCHEDULE C—PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS, ETC. (See Instruction 6)

1. KIND OF PROPERTY	2. DATE ACQUIRED	3. AMOUNT RECEIVED	4. DEPRECIATION ALLOWABLE SINCE ACQUISITION	5. COST	6. VALUE AS OF MARCH 1, 1913	7. SUBSEQUENT IMPROVEMENTS	8. NET PROFIT (Enter as Item 6)
		\$.....	\$.....	\$.....	\$.....	\$.....	\$.....

State how property was acquired.....

SCHEDULE D—CAPITAL NET GAIN OR LOSS FROM SALE OF ASSETS HELD MORE THAN TWO YEARS (See Instruction 6a)

1. KIND OF PROPERTY	2. DATE ACQUIRED	3. DATE SOLD	4. AMOUNT RECEIVED	5. DEPRECIATION ALLOWABLE SINCE ACQUISITION	6. COST	7. VALUE AS OF MARCH 1, 1913	8. SUBSEQUENT IMPROVEMENTS AND CAPITAL DEDUCTIONS	9. NET GAIN OR LOSS (Enter 12½% as Item 4c)
	Mo. Day Year	Mo. Day Year	\$.....	\$.....	\$.....	\$.....	\$.....	\$.....

State how property was acquired.....

SCHEDULE E—INTEREST ON LIBERTY BONDS AND OTHER OBLIGATIONS OR SECURITIES (See Instruction 8)

1. OBLIGATIONS OR SECURITIES	2. INTEREST RECEIVED OR ACCRUED	3. AMOUNT OWNED	4. PRINCIPAL AMOUNT EXEMPT FROM TAXATION	5. AMOUNT OWNED IN EXCESS OF EXEMPTION	6. INTEREST ON AMOUNT IN EXCESS OF EXEMPTION (Enter as Item 9)
a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia.....	\$ 260 00	\$ 5000 00	All.....	XXXXXX XX	XXXXXX XX
b) Securities issued under Federal Farm Loan Act, or under such Act as Amended.....			All.....	XXXXXX XX	XXXXXX XX
c) Liberty 3½% Bonds and other obligations of United States issued on or before September 1, 1917, and obligations of possessions of the United States.....			All.....	XXXXXX XX	XXXXXX XX
d) Liberty 4% and 4½% Bonds, Treasury 3½%, 3¾%, 4%, and 4½% Bonds, Treasury Certificates of Indebtedness, and Treasury (War) Savings Certificates.....			\$5,000	\$.....	\$.....
e) Treasury Notes.....			None		

SCHEDULE F—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 12, 14, 15, AND 16

Item 12—Taxes Paid	Item 15—Contributions
State Income \$ 23.44	Y.M.C.A. \$ 50.00
Personal Property 281.50	----- Church 100.00
Auto Licenses 48.00	Local Charities Drive 100.00
Total \$352.94	Total \$250.00

EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES A AND B

1. KIND OF PROPERTY (Buildings, state material of which constructed)	2. DATE ACQUIRED	3. AGE WHEN ACQUIRED	4. PROBABLE LIFE AFTER ACQUISITION	5. COST (Exclusive of Land)	6. VALUE AS OF MARCH 1, 1913 (Exclusive of Land)	AMOUNT OF DEPRECIATION CLAIMED	
						7. Previous years	8. This year
Office Furniture	1924	new	10 yrs	\$ 1050 00	\$.....	\$ 262 60	\$ 105 00
Professional Equipment	various	"	10 yrs	1750 00		290 00	175 00
Books	"	"	5 yrs	1000 00		360 00	200 00
Automobile	1928	"	4 yrs	1375 00		---	234 37

EXPLANATION OF DEDUCTION FOR LOSSES BY FIRE, STORM, ETC., CLAIMED IN SCHEDULE A, AND IN ITEM 13

1. KIND OF PROPERTY	2. DATE ACQUIRED	3. COST	4. VALUE AS OF MARCH 1, 1913	5. SUBSEQUENT IMPROVEMENTS	6. DEPRECIATION ALLOWABLE SINCE ACQUISITION	7. INSURANCE AND SALVAGE VALUE	8. DEDUCTIBLE LOSS
Diamond Ring Stolen	1923	\$ 250 00	\$.....	\$.....	\$.....	\$.....	\$ 250 00
Repairs to pleasure car resulting from collision							165 70

¶93. State Income Tax Returns

The basis of the various Income Tax Laws of the different States which have enacted such, is very similar to that of the Federal, the main differences being in the amounts of exemption and rates of tax.

There are, however, some difference in the allowable deductions as for example both the Federal Income Tax and the State Income Tax are deductible expense in most cases.

Dividends from a Domestic Corporation on a State Return would mean a corporation organized under the laws of that State. In the same way a Foreign Corporation would mean not only a corporation of some foreign country but also one of some other State.

As these enactments are subject to continual change, it is impossible to include in a work of this kind detailed instructions for the preparation of the Income Tax Returns of all the various States. Nor is it necessary, because if the Federal Return is made first, the differences between the requirements of the Federal Government and the State Government will be easily seen by a comparison of the two forms.

¶94. Answers to Questions Often Asked

Office in Residence.

If residence is rented the proportionate share of the space used for an office may be deducted. This would also apply

to the light and heat. If a house servant is employed partly for the professional requirements the cost of her board, lodging and wages may be proportioned. If she is employed entirely in the interests of the profession then the entire amounts could be deducted. A reasonable value should be placed on the board and lodging as these really constitute part of the wages.

Post Graduate Courses.

Amounts expended for Post-graduate courses are not deductible as an expense on the Federal Returns.

Conventions.

Amounts expended for Conventions are not deductible on the Federal Returns.

Automobile Liability Insurance.

May be deducted only if the automobile is used entirely for professional purposes.

Insurance Premiums.

On office Furniture and Professional equipment and Employer's Liability may be deducted.

Cost of Uniforms.

The cost of uniforms of Nurses, Surgeons, Dentists, etc., are held to be personal expenditures and not deductible.

Losses from Betting or Gambling.

The General Rule is that these are not deductible, but there are exceptions to this rule where the form of betting was legal under State law. If in doubt therefore the advice of someone who understands the Income Tax law should be requested.

Loss on Sale of Residence Property.

This is a deductible item only if it can be shown that it was purchased with the idea of the subsequent sale at a profit. But a profit must be reported regardless of whether it was purchased for subsequent resale or purely as a residence.

When Losses are Deductible.

All losses are deductible in the year in which they occur. If they occur in one year and the insurance is not collected until the next, the amount of the insurance to be obtained should be estimated and the difference claimed as a loss. If this estimate is substantially incorrect, an amended return should be filed.

Shrinkage in Value of Stocks and Bonds.

No loss is allowable for mere shrinkage in value. In order to claim a loss a bona fide sale must be made or the securities proved absolutely worthless.

Capital Expenditures not Deductible.

In brief the term Capital Expenditures can be taken to mean the purchase

of such articles as are more or less permanent in their nature and add to the efficiency, or increase the earning capacity, of the purchaser. Depreciation on such articles would, however, be deductible.

Gains and Losses from "Margin" Transactions.

The Gains or Losses resulting from speculating on the "Margin" are to be reported in the year in which they occur. Losses from this source are fully deductible.

Automobile Accidents.

Damages to one's own pleasure car are deductible if not covered by insurance, but amounts paid to another for damage to his car are not deductible.

Exempt Income.

The different kinds of Income exempt from the Federal Income taxes which are most likely to affect members of the Medical Professions are as follows:

Proceeds of Life Insurance Policies paid on death of the insured.

Gifts and Bequests.

Compensation of State Officers and Employees.

Income from securities of political subdivisions of the United States.

PRICES OF FORMS ILLUSTRATED IN PHYSICIANS' SYSTEMS

PHYSICIANS CASH JOURNAL

Sheets, shown on insert between pages 22 and 23,
50, \$2.50; 100, \$4.75.

Binders

Canvas, full, No. 8817	\$2.75
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Nickel Case, No. 5417	5.85
Russia and Corduroy, No. 4817	7.50

PATIENTS' LEDGER

Visible Record

Similar forms are made by different manufacturers and there is quite a variance of prices, depending on quality and the number of accounts required. The prices of those illustrated in PHYSICIANS' SYSTEMS are as follows:

Sheets for either Doctor or Dentist shown on pages 56 and 63, respectively, 100, \$1.50; 1000, \$13.50

Capacity 567 Patients Accounts

Binder No. 4320, \$19.00; Index No. 4340, 27,
\$3.50.

Capacity 840 Patients Accounts

Binder No. 4330, \$23.00; Index No. 4340, 50,
\$7.00.

Physicians Ledger Sheets No. 137, shown on page 58,
100, \$1.85, 500, \$8.35.

Dentists Ledger Sheets No. 152, shown on page 63,
100, \$1.85; 500, \$8.35.

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Alphabetical Guides, 3x5, Plain, \$0.75, Cellu-
loid, \$1.70.

Ledger Card, 3x5, 100, \$0.75; 1000, \$5.70.

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Binder, \$3.35 to \$7.30.

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ACCRUAL METHOD

Cash Journal forms shown on page 80:

No. 677-20, 100, \$1.95; 500, \$8.75.

General Ledger Sheets shown on page 72:

No. 371, 25, \$1.25; 100, \$3.50.

Service Record Form shown on page 85:

No. 139, 100, \$2.10; 500, \$5.90.

SUNDRY FORMS

Pocket Memo Books

Sheets, 100, \$0.40; 500, \$2.00. Binders, \$1.60 to \$2.50.

Case Record Cards, 100, \$0.80; 500, \$3.65.

Pocket Ledger Sheets, Doctors or Dentists, 100, \$0.55; 500, \$2.50.

COLLECTIONS

Day Guides, 3x5, Plain, \$0.50; Celluloid \$1.10.

Monthly Guides, 3x5, Plain, \$0.80; Celluloid, \$1.80.

Any of the above forms, with the exception of the Physicians' Cash Journal, can be purchased at all the better stationery stores, but if they cannot be procured, they will be supplied by us post paid at the prices quoted. The Physicians' Cash Journal forms can only be obtained from us.

PHYSICIANS PUBLISHING COMPANY

Kansas City, Missouri

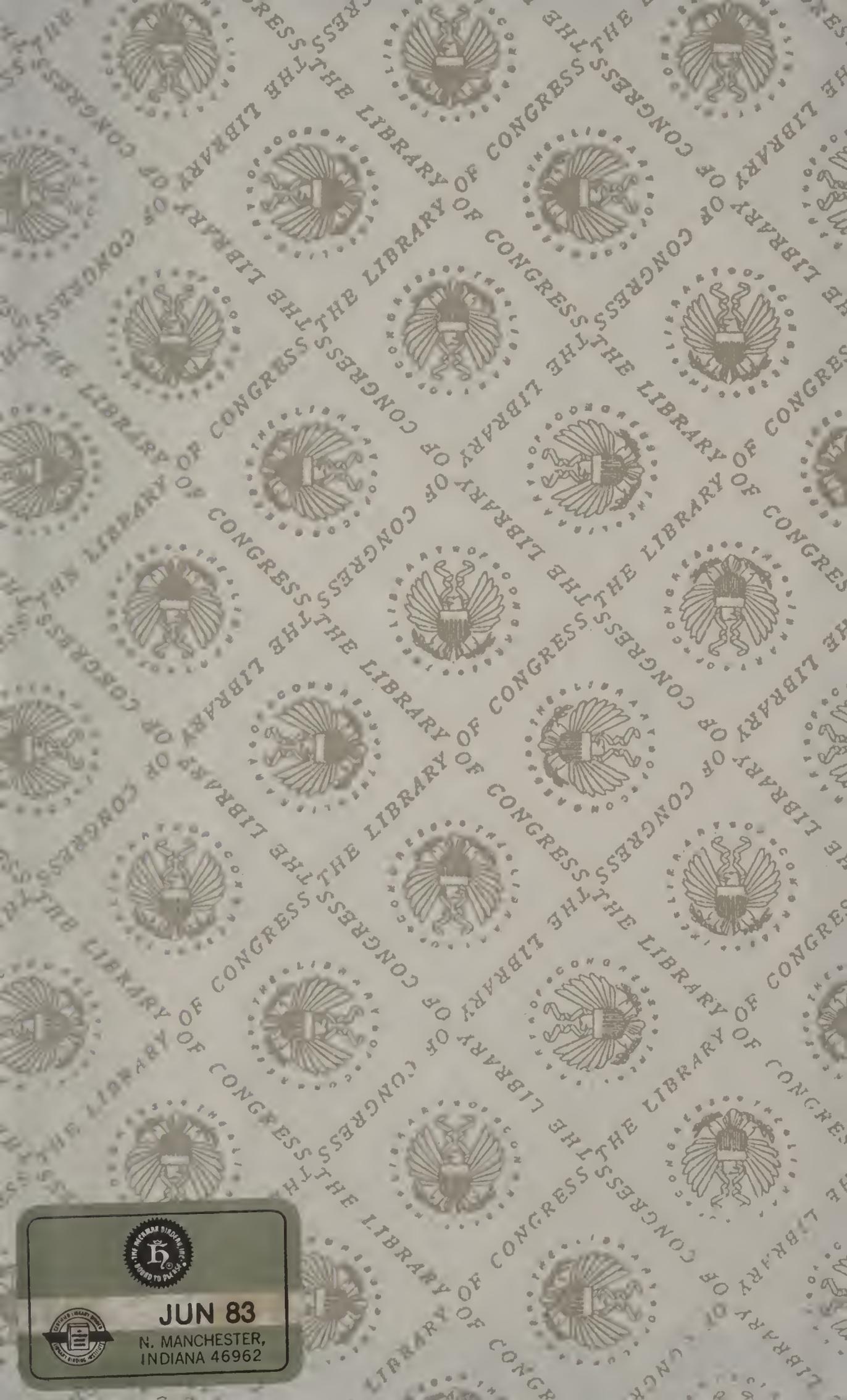
22 23 24



Deacidified using the Bookkeeper process
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Treatment Date: March 2017

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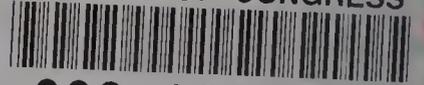


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