



# Divisions of Family Practice

An initiative of the General Practice Services Committee

## Financial Systems Handbook

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## Introduction

**Divisions of Family Practice** is an initiative of the General Practice Services Committee, which is a joint partnership of the Ministry of Health (MoH) and the BC Medical Association (BCMA). The Divisions of Family Practice initiative, launched in November 2008, is growing rapidly in communities across the province.

Local divisions are incorporated non-profit societies registered in B.C. The financial system described in this handbook was developed to enable the board members and staff of local divisions to manage funds effectively. Because the basic elements are shared by all divisions, the financial system also facilitates discussions about the success and impact of the work being done within the initiative. It also enables comparisons between divisions, which helps stakeholders to understand how local conditions affect the operation of each division. The system will also enable local divisions to be accountable externally to funders, especially as reporting requirements increase in the future.

This Financial Systems Handbook is designed to provide local divisions with guidance regarding all financial matters and to enable a division to manage funds effectively.

This handbook contains:

- an overview of the elements of the financial system
- the principles on which the financial system is based
- the major activities related to planning, recording and reviewing finances, and
- processes and mechanisms for maintaining accountability for the finances of the organization.

The financial statements included in this handbook can be provided to your bookkeeper or accountant who will be able to set up the system using financial software (Quicken, Simply Accounting, etc.).

**For information about financial systems not contained in this Financial Systems Handbook, please contact the Business Systems Lead for the provincial Divisions team at 604.638.2895. For information about funds transfers, renewals, or carry-over proposal guidelines, please see the companion guide, *Funds Transfer, Renewal, and Carry-over Handbook*.**

## Accounting Procedures

This section provides a detailed explanation of accounting procedures to be used by local divisions. The accounting procedures developed for the Divisions initiative is for the use of individual, local divisions, but the intent is that the system is owned by the overall Divisions of Family Practice initiative. Each division should reflect on the usefulness of both the accounting procedures and the generated reports, and make localized changes that will improve the system.

The numbers generated by each local division belong to each division, and the provincial Divisions team has no responsibility to review the financial situation or bookkeeping procedures of any division.

While local divisions are free to modify the financial system as needs arise, it is hoped that all divisions can benefit from improving the system as the initiative grows. This could happen through a regular review of the financial system, by coordinators, treasurers and/or other board members. The provincial Divisions team will facilitate this process to ensure that the system works for all divisions.

## Assumptions

Divisions will base an initial budget on a formula that provides \$3,000 per family physician in the area served by each division. In subsequent years, the division will receive \$3,000 per registered family physician member of the society formed by the division. Other sources of revenue could include partner agreements or other programs funded by government, and interest generated by funds held by the division over the course of the year.

The board of the division will make decisions about how the funds are spent, within the parameters of its Constitution and Bylaws and its relationship with the funders of the Divisions of Family Practice initiative. The board has a legal responsibility to make informed and responsible decisions. To do this, it will need information about how money has been spent, and how much is remaining. Therefore, this system includes tools for planning, such as a Pro Forma budget and Projected Cash Flow Statements. It also includes tools for reviewing financial activities, such as Operating Statements, and Balance Statements showing the amounts of money that the division has at a point in time (usually at regular intervals).

The fiscal year of a division will start on April 1 of a given year, and end on March 31 of the following year. This aligns with the fiscal year of the Ministry of Health, which is the most significant funder.

## **Accounting Methods: Accrual Basis vs. Cash Basis**

There are two generally accepted accounting methods: accrual basis or cash basis.

### **Accrual basis method**

The accrual basis method of accounting measures the financial performance of an organization by recognizing economic events, such as receiving money or paying a bill, regardless of when a cash transaction happens. It takes into account all revenues made or expenses incurred whether or not the cash has been received yet or paid out. So if the division expects to receive funds from the MoH as part of a contract, the accrual method will record this even if the money has not yet been received.

This method allows an organization to combine current cash inflows and outflows with future expected cash inflows and outflows in order to give a more accurate picture of the organization's financial position. Divisions can use cash flow statements and the balance statement to make sure that it knows how much money it has at any time.

### **Cash basis method**

The cash basis method of accounting recognizes revenue or expenditure when either the physical cash is received or payment is made. This means that it may understate revenues that the division is expecting to receive (or payments to which the division has committed). In the cash basis method, the division would not record payables or receivables, as transactions are recorded only when the money changes hands. If the division expects to receive funds from the MoH as part of a contract, the cash method will only record the amount when it is actually deposited in the division's bank account.

Often smaller organizations will adopt a cash basis as it is simpler and easier to set up and operate. However, larger and more complex organizations principally adopt the accrual method due to the advantages it gives an organization over a cash basis. Divisions are encouraged to use the accrual method. Although a division's budget may be small initially, there is potential for the budget to grow through initiatives, partner agreements and other activities. Ultimately the choice is that of the division, and local experts may help a division set up systems regardless of which approach is chosen.

The financial system includes tools such as Balance Statements, Cash Flow Forecast and Operating Statements, to ensure that the board makes decisions based on accurate information.

## 1. Planning the division's activities and expenditures

As local divisions first begin activities, it is difficult to know how much will be spent on activities such as board meetings, telephones or committee meetings. Over time the board and staff will be able to see patterns in the activities of the division and the costs of these activities. It is important to try to project how the funds of the division will be spent over the year, and the financial system includes two templates to assist with this.

### Budget Pro Forma

The budget pro forma is the budgeting template used to develop each division's annual budget. It shows how the board expects the resources of the division to be spent over the coming year on a monthly basis. Each budget pro forma is split into cost and revenue categories (e.g. Human Resources and then cost types, such as Travel – Mileage). All division cost centre budgets are then rolled up to form the division's overall budget.

The budget pro forma is split into twelve monthly periods. There is a total column for the full year's budget. A division can build the pro forma from monthly or annual estimates for each cost type.

It is important that each division prepares a budget in a way that mirrors the method by which it is charging or allocating its costs out to the programs. This enables accurate and useful comparisons between the budget and the actual expenses incurred.

### Cash Flow Forecast

The cash flow forecast spreadsheet is intended to assist the division and its management to manage the organization's cash flow to ensure there is enough cash to pay expenses when required. The spreadsheet can be developed on an annual basis using finance-related expectations and assumptions.

The spreadsheet covers a full year and enables the financial managers to input revenues and payments when they are expected to be paid or received. This helps identify any months when the division may be potentially short of cash to cover its obligations and help managers take steps to avoid such an occurrence.

Each month starts with an opening cash balance that automatically rolls forward from the previous month's closing balance. This document can be updated throughout the year to account for any changes or new assumptions.

As the division will likely use the accrual basis method of accounting, the cash flow forecast will be especially important in identifying the organization's real cash status. Information shown in the financial statements may include cash or payments not yet received or paid, but included as revenue or expenses as they are being matched to a particular item.

## 2. Recording Financial Transactions

### Chart of Accounts

The chart of accounts is the 'skeleton' on which the rest of the system hangs, and this consists of two components: Cost Centres and Cost Type (also called Cost Classification).

### Cost centres

Cost centres are used to help the staff and board manage the activities (and related costs) of the division. Cost centres help group costs according to the major areas of activity of the division, including:

1. Administration / Management
2. board
3. Committees
4. Promotion / Member Costs (including costs related to recruitment)
5. Partner Agreement 1
6. Partner Agreement 2

The division can set the cost centre codes. The system provided suggests using a four-digit code for each cost centre. Each division and its bookkeeper may choose to use three- or five-digits according to their preference.

### Cost type codes

Cost type codes provide a system for recording each individual expenditure. All revenues and expenditures incurred by a division will be booked against one cost centre code and one cost type codes within the division's financial records. This enables the coordinator, the treasurer and the board to identify what an item was, and what activities (administration, board, committee or Partner Agreement, for example) that expenditure supported.

Cost type codes use a three-digit numeric between 111 and 999, although each division and its bookkeeper may choose to use four-or five-digit numbers.

### Allocation of Costs to Cost Centres

#### Costs:

All costs should be directly coded and charged to the relevant cost centre (program). For example, if a physician is working on the 'Committees' program, the hours involved should be coded to that cost centre.

This should also be the case for other costs such as travel, equipment, office supplies or printing. These should be directly coded to the relevant cost centre. Using this process enables the division to track expenditures in the same way that its activities are managed.

### **Administration Staff Costs:**

Initially the only costs not allocated to the programs will be those for a coordinator and/or an administrative assistant. These will be coded and held in the Administration / Management cost centre. Initially, individual programs will not carry overhead for administration staff.

As the divisions become more complex and grow, it may be deemed by the divisions as useful to allocate these salary costs to programs based on some mechanism, such as the number of hours spent by administration staff on that particular program, or an agreed percentage of the staff salary and benefits.

If a division administers a branch division, then the division can track the Management and Administration costs separately, by charging some of the costs of the coordinator to the branch's cost centres. Where this occurs, the number of hours should be tracked and then allocated out to that branch and the relevant program, or an agreed percentage of these salaries should be allocated. This should be done from the outset of the operation of a branch, and the process used will likely be part of the agreement between a division and a branch division.

### **Revenues:**

Initially all revenues will be coded either to the Administration / Management cost centre or to the relevant Partner Agreement cost centre. Revenues will not be allocated to individual programs. This means that initially individual programs will budget for expenses (with the exception of Partner Agreements) and will not show any revenues. Programs will therefore show a loss on the annual budget whereas the Administration / Management cost centre show a surplus.

As divisions grow and become more complex this may be reviewed, and revenues may be allocated to cost centres as appropriate.



### 3. Basic Financial Controls:

Financial controls are systems or procedures that the division develops to protect itself (its board and its members) against fraud or embezzlement, and ensure that everyone has confidence in the finances of the organization. The basic principle of financial controls is called 'segregation of duties', which means that no one person should have too much authority and control over the division's money.

#### Cheques

Cheques will require two signatures, one of whom should be the treasurer. The other can be another board member or the coordinator, unless the coordinator is also the bookkeeper.

As with many non-profit societies, the board of the division may authorize the coordinator to make payments up to a certain level, and only require the board's approval for expenditures exceeding that amount. This amount could be \$1,000 for example, or it could vary according to the regularity of the expenditure.

In the case where the coordinator is the bookkeeper, two board members including the treasurer should approve all significant expenditures and then review all expenditures regularly. Where the coordinator maintains the records of the division, the board may also create another level of control by approving a coordinator's budget for significant expenditures (for example, if the division is planning an event), and then reviewing the expenditures following the event. In this case, the prior approval and subsequent review should be documented in writing. This can be done with a signature or an email that is printed and filed.

#### Bank Reconciliations

Reconciling the bank statement is a process where the division compares its account records to the bank's records of its account balance in order to uncover any possible discrepancies. Discrepancies could include: cheques recorded as a lesser amount than what was presented to the bank; money received but not recorded; or payments taken from the bank account without the business's knowledge.

A bank reconciliation can reduce the number of errors in an accounts system and make it easier to find missing purchases and sales invoices. Any transactions in the accounting records not found on the bank statement are deemed outstanding. Each bank will have a reconciliation timeline of 30 to 60 days, after which the bank statements are deemed accurate.

Bank statements should be reconciled monthly and the coordinator or the bookkeeper can do this. The bank reconciliation should be reviewed by the treasurer, who should initial the statement once reconciled. If the treasurer has questions, these should be raised with the bookkeeper.

## **Invoices/Cheque Requisitions**

All invoices and cheque requisitions should be authorized and signed off by the coordinator or designate. All invoices or cheque requisitions require a valid account code before they can be paid.

Arithmetic and any taxes charged on the invoice should be verified by the bookkeeper or administrative assistant.

## **Review of Financial Statements**

The treasurer - supported by the coordinator and the bookkeeper - should present the monthly financial statements at each board meeting. These statements outline the financial status of the division on an ongoing basis. The board should approve the financial statements for the minutes, after asking questions and receiving adequate responses. The treasurer or other board members may initiate discussion of policies or procedures that can be developed to address issues as they arise.

## **Budget**

As mentioned at the outset of this handbook, the division should create an annual budget to be approved by the board. This is the key financial control document for the organization. Part of the budgeting process should be the provision of a year-end projection for the current year of operations.

Variance analysis should be conducted at regular intervals, ideally quarterly. Variance is the difference between a budgeted, planned or standard amount and the actual amount incurred/sold. Variances can be computed for both costs and revenues. The goal of a variance analysis (and discussion of that variance by the board) is to identify any worrying trends or problem areas as early as possible in order to take corrective action.

Discussing variances in the budget will also help the board control expenditures in the future, especially if every activity (for example, an event for family doctors) has a budget developed proactively. It is not necessary to change the division's budget as the board sees significant variance. A division can wait until the end of the year to make any corrections to the budget. This should help in planning the following year's budget.

## **Accounts Receivable and Accounts Payable**

The list of current accounts receivable and accounts payable should be passed to the coordinator for information and review. The list should also be presented together with the monthly financial statements for the board's information, especially where there are problems with the timeliness of payments or receivables. This will help staff and board members respond to potential questions from members regarding the amount of time it takes for family doctors to get paid for services provided to the division.

## **Payroll**

Payroll will be semi-monthly and will be paid by direct deposit or by cheque. Before payroll is processed the coordinator will review and authorize it, raising any questions or queries with the bookkeeper. In the case of the coordinator's paycheque, the treasurer will review and sign the cheque, along with another authorized signatory who is a board member. If the coordinator is also the bookkeeper, then two board members should sign off on deposits, and the treasurer should review these as part of the regular review activities.

## **Internal Transfers**

An internal transfer of funds from one cost code or cost centre to another usually happens when an error in allocating costs is discovered. All internal journals of transfers between account codes will be signed by the bookkeeper and kept in a separate file.

## 4. Reviewing and Assessing the division's financial situation

### Operating Statements

By using its financial records system and the chart of accounts, each division will be able to generate an operating statement or statements, usually on a monthly basis. Statements can be prepared by cost centre or by the division as a whole.

The costs related to operating the division are grouped to help the staff and board manage all revenues and expenses for management control and tracking:

Divisions will be able to review two types of operating statements. A division can expand on these two if it wishes to organize the information differently, or to analyze the financial activities from a different perspective. The two types of operating statements are:

1. Operating Statement by cost type / classification. This will tell the board how much the division has spent on items. It also tells the board how much of the annual amounts allocated for each item remains to be spent in the fiscal year. A sample of an operating statement by cost type / classification follows.

<b>OPERATING STATEMENT</b>				
<b>(Detailed - By Cost Classification)</b>				
For Each Cost Centre/Program and By division				
	<b>YTD Actual</b>	<b>YTD Budget</b>	<b>YTD Variance</b>	<b>Annual Budget</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue:</b>				
MoH - Infrastructure				
MoH - Service Agreement				
Interest				
Other Funding				
<b>Total Revenue</b>				
<b>Expenditure:</b>				
<b>Human Resources</b>				
Physician				
Salaries				
Contracted				
Benefits				
Professional Development				
<b>Total Human Resources</b>				
<b>Administration</b>				
Amortization				
Society fees				
Memberships/Subscriptions				
Insurance				
Banking Fees				
Professional Fees				
Travel - Mileage				
Travel - Airfare				
Accommodation				
Event Expenses				
Meeting Costs				
<b>Total Administration</b>				
<b>Facilities</b>				
Rent				
Utilities				
Repairs & Maintenance				
Telephone and Communications				
<b>Total Facilities</b>				
<b>Supplies &amp; Equipment</b>				
Office Supplies				
Computers				
Furniture				
Other Equipment				
Postage				
Printing				
Miscellaneous				
<b>Total Supplies &amp; Expenditure</b>				
<b>Total Expenditure</b>				
<b>Surplus / (Deficit)</b>				

2. Operating Statement by program / cost centre. This approach includes one line for each program so the detailed expenditures will not be seen. This is a high-level way of organizing the information, and will tell the board how funds are being spent in relation to the major activities of the division. An example of an operating statement by program / cost centre follows:

<b>OPERATING STATEMENT</b>				
<b>(By Program / Cost Centre Level)</b>				
	<b>YTD Actual</b>	<b>YTD Budget</b>	<b>YTD Variance</b>	<b>Annual Budget</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue:</b>				
MoH - Infrastructure				
MoH - Service Agreement				
Interest				
Other Funding				
<b>Total Revenue</b>				
<b>Expenditure:</b>				
Administration / Management				
<b>Total Administration / Management</b>				
Divisional Programs:				
Board				
Committees				
Member - Education				
Division - Event				
Service Agreement 1				
Service Agreement 2				
Service Agreement 3				
<b>Total Divisional Programs</b>				
<b>Total Expenditure</b>				
<b>Surplus / (Deficit)</b>				

Each Operating Statement has four columns:

YTD (Year to Date) Actual

The actual amount of expenses or revenues incurred in total to the date of the Operating Statement.

YTD Budget

The amount of expenses or revenues budgeted to the date of the Operating Statement.

YTD Variance

This is the difference between the expected budgeted expenses and revenues and those

actually incurred to the date of the Operating Statement. This may be positive or negative.

Annual Budget

The amount budgeted for the year for each line item.

The Operating Statement can also be modified to provide information on the expenditures for the current period, comparing them with expenditures of the previous period or even the same period one year in the past. This approach would tell the board how much was spent on items or areas of activity in a specific time period, such as May versus June of the same year, or between May 2009 and May 2010.

## Balance Sheet

The balance sheet shows the financial position of the division at a given point in time. It is produced by the bookkeeper for the board's regular review of the division's finances, and always as part of the year-end financial statements. This can be produced at intervals (usually monthly) to show the financial situation of the division in terms of its assets and liabilities at that date. The balance sheet shows three main areas:

1. Assets – How much the division has or expects to have;
2. Liabilities – How much the division owes;
3. Equity – The assets minus the liabilities.

The balance sheet will have two columns:

*Current Period*      The point in time that the balance sheet describes (e.g. September 30);

*Previous Period*      The previous period that the balance sheet covers (e.g. August 31).

For the year-end balance sheet the 'Current Period' is the last day of the financial year (e.g. March 31<sup>st</sup> 2011). The 'Previous Period' is the end of the last financial year (e.g. March 31<sup>st</sup> 2010).

<b>BALANCE SHEET</b>		
(Statement of Financial Position)		
At March 31, 20xx, with coparative figures for 20xx		
	<b>Current Period</b>	<b>Previous Period</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Current Assets:		
Cash at Bank		
Restricted Cash		
Short Term Investments		
Accounts Receivable		
Prepaid Expenses		
Petty Cash/Advances		
Long Term Assets:		
Capital Assets		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable & Accrued liabilities		
GST Owed		
Current portion of long term debt		
Deferred Contributions		
Long Term Liabilities:		
Deferred Contributions		
Net Assets:		
Unrestricted		
Interally restricted / contingency		
Invested in capital assets		



## Accounts Payable Listing

The financial management system used by a division can be set up to produce an accounts payable listing usually on a monthly basis. This will enable the division to identify money owed to vendors and principally physicians for work they have completed for the divisions but for which they have not yet been paid.

This listing can set up to identify payables which are 30, 60, 90 or greater days old.

## A treasurer's guide to reviewing the finances on a regular basis

1. First look at the overall divisional operating statement and look at the bottom line. Is it in surplus or deficit in the year to date? How far from the YTD budget is it? Is there a large variance?
2. Identify some of the larger YTD variances within the cost areas. Are they significant amounts? Are these variances explainable by the coordinator and or Bookkeeper and do their explanations make sense (e.g. seasonality or specific events happening within a time period)?
3. If the variances are not explainable, ask what is being done to identify what is causing the variances, and what is being done to alleviate the problem or problems.
4. The board should look at the individual cost centre operating statements and follow a similar process to above. Some of the questions may already have been answered.
5. When reviewing the balance sheet some key numbers for treasurers to look at will be:
  - a. cash at bank or on hand
  - b. the amount of Accounts Payable, as this will help identify how long it is taking to pay people or suppliers, and
  - c. Accounts Receivable, as this will show how long it is taking to receive money.
6. The treasurer needs to review the statements regularly; no less than once a month.

## 5. Financial Accountability

As with most non-profit societies, a division will consider both internal and external financial accountability.

### Internal financial accountability

The members of the division are its ultimate authority, and members will want to know that the board is managing the resources of the division in the best interests of the membership. This means that board members should be aware of, enforce and review financial controls. The board should also be aware of the operations and the financial situation of the division.

The best opportunity for a division to express its accountability to members is at the AGM, where members can review and approve the financial statements for the past year and possibly a proposed budget for the coming year.

### External Financial Accountability

The division's external financial processes are accountable to the funders of the Divisions of Family Practice initiative, namely the GPSC, MoH, and the BCMA. There are three levels of external review of an organization's finances:

1. Audit – the most intensive review, where financial controls of the organization are assessed, a sample of expenditures is tracked to the related documentation, and the auditor determines the fairness of the financial statements;
2. Review Engagement – a mid-level review that provides a lower level of assurance of the accuracy and fairness of the financial records yet enables the external body to attest that there is no evidence that the books are not being kept according to Generally Accepted Accounting Principles;
3. Compilation – the lowest level of review, where the purpose of the review is primarily internal or for income tax purposes. The Compilation is also known as a 'Notice to Reader' or 'NTR'.

Currently, divisions with a total budget of less than \$250,000 are only required to use the Review Engagement or Compilation level of review through an external accounting firm. Divisions with a total budget of \$250,000 or greater are required to use the Audit level.

The provincial Divisions team has identified Wolrige Mahon as the most cost effective provider of this service. The staff person dedicated to the compilation and tax statement preparation for the Divisions initiative is Masato Oki, who can be reached at: [moki@wolrigemahon.com](mailto:moki@wolrigemahon.com).

While divisions are only subject to Compilation by their funders, it is likely that this requirement will be raised should there be significantly more funds handled by local divisions. This financial system is designed to enable divisions to meet more stringent standards should those be required at a later date.

## 6. Additional Details

### Capital Assets

All tangible assets which cost \$1,000 or above and have a useful life of greater than one year will be capitalized. This means that their diminishing value will be shown in the financial statements.

Capital assets will be amortized on a straight line basis over the following number of years based on their expected useful life:

Equipment (incl. computers)/Furniture	3 years
Leasehold Improvements	15 years
Buildings	25 years
Land	Not Amortized

All capital assets will be recorded at cost less accumulated amortization.

## **7. Quick Guide - Financial System Set Up**

This guide is intended to assist the division in establishing its financial systems and budgetary process. The notes refer to the financial templates (included in the excel spreadsheet 'Divisional Family Practices BC') and manual established for the BC Divisions of Family Practice and available on request to each division.

### **How to set up the division's books**

#### **1. Hire a bookkeeper**

The easiest way to get the financial system up and running is to secure the services of a bookkeeper, and have them use the system and produce reports as needed. The provincial Divisions team has developed a tool to use for engaging the services of a bookkeeper, which includes a process for finding, interviewing and contracting those services.

Once a bookkeeper is hired, a division can provide that person with the Financial System excel spreadsheets, and provide the guidance he or she needs (included below) to set up and manage the books accordingly.

#### **2. Choose accounting software**

If the coordinator or administrative assistant will record the transactions of the division, the first thing to decide upon is the financial management package (accounting software) that will be used to manage the division's finances. There are many different finance packages on the market specifically designed for small to mid-sized organizations. Some of these include QuickBooks, Simply Accounting and ACCPAC. All of these packages will come with a manual or instructions on how to set them up on the division's computer system. Some may also come with technical support you can access by phone; other packages will charge extra for this service. The packages have different modules such as General Ledger, Accounts Payable, Accounts Receivable and Payroll. There may also be others which can be set up as required.

#### **3. Set up the accounting software**

Set up the chosen software package so that it records and reports on the division's transactions as required. The division may require a consultant to do this. There are specific organizations which deal with financial systems and accounting software. This support can usually be found through the internet or yellow pages. There are also accountancy firms which can set these systems up for the division.

The division will need to assign account codes to each of the accounts listed in the Chart of Accounts tab. If there are branch divisions attached to the division they will also need to have account numbers, cost centre numbers,

and titles assigned to them. The same account numbers should always be used for the division and its branches, in order to ensure consistency.

If a third party consultant is used to set up the accounting software and account codes they should be given the details around the cost centres the division needs and the numbers assigned to the chart of accounts. They should also be given the spreadsheet which has been created as the basis for the financial system to be used. This spreadsheet contains several tabs containing a number of templates to be used, including the Chart of Accounts, Operating Statement, Balance Sheet, Budget pro forma and Cash Flow pro-forma.

#### ***4. Use the software to allocate costs or record revenue***

Once the accounting software has been set up and all the required modules have been established (such as General Ledger, Accounts Payable, Accounts Receivable and Payroll), the financial management system can be used to start allocating costs to it or recording revenue to it. The division can pay invoices and record receipt of revenue through the system as well as pay salaried staff through payroll if applicable.

### **Financial Statements**

Financial statement templates will be used to produce the Operating Statements and balance sheet for the division. Again, if in-house expertise is not available to set up the financial statements, the templates should be passed on to the consultant who is setting up the accounting software.

The division should request that the Operating Statements and balance sheet are set up in the format laid out in the spreadsheet. With some financial management packages, the consultant will set up these templates within the actual accounting software itself and the software will effectively generate the statements for the division as needed. Other packages will use a spreadsheet package, such as Excel, to generate the financial statements. The templates in Excel will be linked to the accounting software which will be used to extract the financial information and will generate the required financial statements when needed.

We encourage all divisions to spend the time necessary to set up the accounting procedures properly, and to hire external consultants to assist. Once the process has been set up correctly, it should be very simple for the Bookkeeper to generate an Operating Statement or balance sheet. Before doing this the bookkeeper may need to set the parameters they require, such as the date range, spread of cost centre codes to run, or account codes to be run.

## **Budgeting within the system**

For budgeting purposes, the divisions should use the budget pro forma template included in the Excel spreadsheet. This should be the format in which the division prepares its budget both at a cost centre level and at the overall division level. The budget mirrors the chart of accounts that will have been set up in the accounting software package.

Before using the budget pro forma template, the division will need to have a strong idea of what numbers it is budgeting. For example, it will need to know its physician costs before it drops them into the each cost centre budget. The overall division budget - if linked correctly - will give the division the information it needs around whether it is budgeted to make a surplus, deficit or will break even. If in a deficit position the linked budget template will allow the division to adjust individual lines within cost centres until it is in a break even or the desired surplus position.

The annual budget for each division should be set up in one spreadsheet. The cost centre budgets and overall division budget should be set up as individual tabs within the spreadsheet.

The division should develop an individual annual budget for each cost centre. This should be done for every cost centre whether it is budgeting amounts on all the lines in the pro forma or just on one line.

The numbers for each cost centre budget should be dropped into each cost centre budget pro-forma. The division will need to decide whether to plan its budget monthly or whether to try and incorporate known seasonality within it and adjust each month accordingly.

Each cost centre budget pro forma should be linked to the overall division budget pro-forma. Again this will be in the same format as the cost centre budgets.

Once a division's budget spreadsheet is set up for one year, it can be copied and saved under a new name for subsequent years. Add new budgets for new cost centres as they arise. These will need to be linked in to the overall division budget pro forma.

**For information about financial systems not contained in this Financial Systems Handbook, please contact the Business Systems Lead for the provincial Divisions team at 604.638.2895.**