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Boost Your Financial Terminology IQ

Welcome to the Perfecting Your Practice podcast, where we will talk about finance for the healthcare professional and medical practice owner.

This series is brought to you by Bankers Healthcare Group, the leader in financing solutions for healthcare professionals. Since 2001, BHG has worked with more than 100,000 licensed practitioners to help them reach their financial goals. Perfecting Your Practice is designed to talk about ways you can invest in your career and practice in order to set yourself up for success.

Now here's your host, Keith Gruebele, senior vice president at BHG.

Keith Gruebele: Hey everybody welcome back to Perfecting Your Practice, presented by Banker's Healthcare Group, this is Keith Gruebele and I am back and joined once again by a couple of guests. Really excited to bring back in the room both Jessica Page, our in house senior tax manager. And mister Gene Marks, CPA, writer, columnist, author, father, extraordinaire.

Gene Marks: Low key, great to be back.

Keith Gruebele: It's lovely to have you guys here. So I tend to stay on more on the finance and sales side of things, so jumping into the accounting terms for me was a learning process early on in my career.

Today, as healthcare professionals look at the changing financial landscape, I find myself having to

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explain what we appear to be simple terms. Things like, what an alternative lender is, or what an MCA is, a merchant cash advance, or what does fin tech really mean and who defines it.

What is SBA and how does it apply to me, and going through all these different acronyms and names I realize, you know what? I think there's a ton of them out there that apply into accounting, into finance that most healthcare professionals don't know. And chances are they're sitting in a room with one of you two brilliant folks, or someone like you. And they're hearing all these terms they don't really know what it means, how it's coming across, so I figured it would be fun if we could just run around the table. And I wish I had a buzzer in here, kind of you guys tag in, but just to talk through some terms and figure out how they apply to the healthcare business, and how they apply to business overall, and how knowing these terms might help them kind of grow their practices a little bit. Or just understand financing a little better.

Gene Marks: I have to ask you, you're like a sales guy, and you know some of these terms that we're gonna talk about right?

Keith Gruebele: I do, yes,

Gene Marks: So, how long did it take, this can't be too tough, right?

Keith Gruebele: What are you implying?

Gene Marks: You're a sales guy right?

Keith Gruebele: What does that mean?

Gene Marks: Right.

Keith Gruebele: It definitely isn't difficult, I think it's more than anything the fear factor. And I'm a big believer in anything you're gonna do, know it well, understand it through and through. I love what I do, I have a huge passion for finance. I don't consider myself a sales person as much as kind of a consultant and trying to help people through a difficult place. And a lot of times finance is a very scary thing, and loans are a very scary thing. I like to be able to teach people and kind of educate and walk them through, that's I guess if you call that my sales style, it's more that, it's more consultative in helping people understand what challenges are. And let them know you're not the only one out there, and walk them through it.

So yes, it isn't very difficult. I think it's more overcoming the fear and I think the big thing is we've mentioned before, is everybody doesn't like admitting something that they don't know. And as uncomfortable, and I'm a big student of life, I have no issue saying if I don't know something, I don't

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know it and I'd rather ask the question then assume so.

Gene Marks: Right.

Keith Gruebele: I think that these terms are kind of relevant, especially when it comes to finance.

Gene Marks: So basically what the takeaway is, is that listen guys if you're a healthcare professional, you're in the healthcare field, if Keith can learn these things-

Keith Gruebele: You can too.

Gene Marks: You can too, that's exactly right. Right? This is not Gene talk. Way right in the kisser, Alice.

Keith Gruebele: Just when I thought when we were becoming friends, so I'm gonna point all my questions at Jess now.

Jessica Page: Alright. Thanks Gene.

Keith Gruebele: Jess, you've said nothing but nice things so I really appreciate you being here. Let's talk a little bit, so this is an interesting one because even I at times get a little confused with a cruel verses cash. Yeah, let's get into the juicy ones.

Gene Marks: Yeah I like that. So, can I take this one first?

Jessica Page: Absolutely.

Gene Marks: Is that okay? Is that alright if I go. Accrual verses cash is really people, people often ask me a very similar question. And I bet you, if you're listening to this now, have this question too if you're in your own business. You're like, you know what? My accountant told me I made all this money last year, and I don't have any. Why is that?

And the answer is usually-

Keith Gruebele: Student loans.

Gene Marks: Or that weekend in Vegas, where I can only remember half of it. The answer is usually accrual verses cash, because in the world of accrual when you've actually performed a service and you've invoiced for that, it accounts as income, right? That's how you record it in the world of-

Keith Gruebele: In accruing income.

Gene Marks: You're accruing income. But since you have expense, like if you incur a cost, and even before you receive the invoice for it, when you've incurred that cost, it's supposed to be an expense.

You're supposed to match your income with your expenses. Nothing to do with cash, so there were some companies that, boy I had a great month. I billed out 10,000 dollars worth of services, but their bank balance is still zero because they haven't been paid the 10,000 dollars yet. That's what happens when you're on the accrual basis of accounting.

Now for much much smaller companies, freelancers, and I forget what the cut off is Jess, but most people are on the cash basis of accounting. But at some point you grow to a stage where you need to train and transition over to the accrual basis of accounting, it's required by the IRS for your tax accounting. So, just bear in mind then that if you're showing income from your accountant, but you don't see now the cash in your bank, it's probably because your accountant is doing your books on the accrual basis.

Keith Gruebele: Awesome, Jess anything to add to that?

Gene Marks: Does that make sense?

Keith Gruebele: That makes a lot of sense.

Jessica Page: Yeah, also-

Gene Marks: Of course that makes sense to you, what am I saying? You're an accountant, does that make sense.

Keith Gruebele: Jessica's nodding in acceptance like yup, mm-hmm (affirmative) very important.

Jessica Page: That sounds right.

Gene Marks: Keith does that make sense to you?

Keith Gruebele: It does actually, I think that breaking it down into the actual pure definition of the terms. If you're accruing the income it might not be realized yet in your bank account, but you're accruing that income or that debt in that particular state of mind.

Jessica Page: One thing to remember too is a lot of times at the end of the year, you might have a rush, say I'm gonna get all these bills paid at the end, the January bills, I'm gonna pay them in December so I can take the deduction this year. Just check with your accountant before you do that, because it may work it may not depends on if your taxes are being reported cash or accrual. So before you rush all that cash out the door or rush all the invoices out the door, just check in quickly and see what method you're on.

Keith Gruebele: So you're talking deductions and write offs, and I've heard often, I'm fortunate enough to be able to work a lot with healthcare professionals that come in the door and see their loans on a day to day basis, and speak with them about the businesses that are set up with them. And often times, they'll have multiple corporations set up, some of them as in I'm using air quotes here, "pass through," verses more of a brick in water set up business. Define a pass through, how does that help that professional? What is that about?

Jessica Page: Sure, so pass through is a tax concept where you're running your business and it's a separate legal entity. It is a separate, it's got its own name and EIN, tax ID number and things like that. However every year when the year closes and you're gonna report the income that the business has earned. Instead of reporting it at the company level and having a separate tax return, or separate tax on the income of the company level, all of that activity actually passes through to your personal return.

So you are picking up income, gains, losses, everything from that activity right on your personal 1040 at the end of every year. So it's slightly different, you think corporations you think about the public tax things like that. So it's a different type of set up that allows you to avoid tax at your company's level, while you bring it all and pick it up on your return.

Keith Gruebele: Perfect, and there may be I guess some tax benefits to...

Jessica Page: Absolutely, especially with the tax reform. Legislation, it just went through, there are some deductions that they're giving you now for pass through income. They've lowered the corporate tax rate, so there's a lot of interplay between the two types in deciding how to be set up. Definitely, definitely talk to your tax advisor on that one.

Keith Gruebele: I know that you gave us some advice about that Gene.

Gene Marks: Yeah, earlier I wanna share with you, is really great tax advice I was given to me. So let me share it with everyone else when it comes to tax reform. Right Jess, I mean it was a big, big change to our taxes so if you're listening to this here's what I want you to do. I want you to talk to your accountant as soon as possible, and what I want you to do is I want you to take last year's numbers, and I want you to ask your accountant to do this year's tax return using last year's numbers. I'm assuming there isn't gonna be that big a difference year to year, and let your accountant figure out what your taxes would be owed.
Now, they're gonna do one other thing. If you are a pass through entity as Jess just described, ask your accountant to do the same exercise but pretend that you're not a pass through. You're a c corporation, a separate stand alone corporation. And by the way, if you're a c corporation ask your accountant to do the same exercise again pretending that you are a corporation.

Why? Because let's face it, you don't know, you're accountant probably doesn't really know, which entity, which set up is better for you after all these massive changes in the tax laws. And the only way to really do it, is by running the numbers. And if you determine that you're right now a pass through and it seems like you could save more money by being a c corporation, then make that change.

Jessica Page: Absolutely.

Gene Marks: Vice versa. So have them run it, and I think you would agree Jess I mean, this is not like brain surgery here right? It's pretty easy to do if you're a tax accountant.

Jessica Page: There are a lot of complications that this law brought in, there are some regulations that haven't been written yet. So there's definitely some questions out there, so you might get a little bit of push back. But, you can run a baseline-cal without too much difficulty. Absolutely.

Gene Marks: Yeah that's right. And by the way, don't, listen if your accountant says, oh it's gonna take me a couple of hours to do or whatever, do it and pay your accountant and if they have an hourly rate or fair enough. Because really that small investment and an hourly rate for the accountant, could pay off many times [inaudible 00:10:16] taxes that you could save.

Jessica Page: Exactly.

Keith Gruebele: Awesome. Forgive the silence, I'm literally taking notes on the stuff that I'm learning here, this is great. So Jessie and I have to speak after this.

Jessica Page: Okay, no problem.

Keith Gruebele: I think that provides a lot of clarity for folks as far as how they could file, what they should be looking at, and what the potential pass through means. I think it's a great idea to be able to just kind of always question the status quo and how you do things I think in medicine you do it, why not be doing it with your finances, right?

Jessica Page: Yup, exactly.

Keith Gruebele: Let's talk about balance sheets, there are a lot of times you'll ask somebody for a balance sheet and you might get an income statement or vice versa. And I don't think there's a lot of clear differentiation out there as to, which is each and what purpose they serve. Who wants to take it? You wanna flip a coin?

Jessica Page: Just a quick way I break this down for people typically, so your income statement you might also hear it called your profit and loss. Okay so, [crosstalk 00:11:01] PNL.

Keith Gruebele: Is a PNL preferably.

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Jessica Page: Yeah so that, that's the snapshot of what you are doing at this period in time. And your balance sheet is more your cumulative history right, so you got for example, your retained earning account. What have you done since the inception of your business, and that's what sitting on your balance sheet. Your current cash positions and things like that, but your PNL is really the nuts and bolts income and expenses.

Gene Marks: Makes sense yeah, sometimes I call and we're gonna confuse the audience a lot right now, but the balance sheet is also I consider it to be like a snapshot. I mean I also consider like listen, give me my balance sheet as of March 31. Boom, it is what it is. These are my assets, these are my liabilities, that's what I have in my balance.

Keith Gruebele: Point and time snapshot of my finances.

Gene Marks: Yeah, and like for example like, your bank balance is one of the line items on your balance sheet. There are other assets like, if you have any inventory that would be, it's a listing of your inventory that's an asset. If you have any kind of fixed assets, that goes on your balance sheet. If you owe people money, that goes on your balance sheet. So, but it's only at one point of time boom, this is what it is. And then, just like you were saying, your PNL is cumulative right? It's during a period of time, say from like January to March.

Jessica Page: Yup.

Gene Marks: What were my revenues and what were my expenses.

Jessica Page: And it's funny too, because my focus being tax because I'm all about the PNL cause that's what we have to put on the return this year.

Gene Marks: That's right.

Jessica Page: But when you get into looking at things like, going in for financing things like that, the balance sheet might come into play because we wanna see, well what do you already owe people? What assets do you have already?

Gene Marks: See now me, I just find that funny Keith. Do you find that funny? Because [crosstalk 00:12:35]

Keith Gruebele: I think it's very interesting because it gives you two different perspectives of your numbers. And I think that's the whole thing, is that you have multiple different ways to look at the same numbers. Right?

Gene Marks: Yes, agreed.

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Keith Gruebele: And that's I think what could become confusing is well, isn't it the same thing? I'm looking at the revenue coming in and I'm looking at the money going out, what difference does it make, or what point in time, or what snapshot. But it makes all the difference in the world, like you said, a profit loss statement has really showed you that income for the year and what you're generating. And that again, your income statement or your profit loss statement, and your balance sheet is talking about assets and equity. And it's talking about where you are financially overall, for [crosstalk 00:13:08]

Gene Marks: What do you look at when you're looking at a perspective client that's looking for financing-

Keith Gruebele: Great question.

Gene Marks: What do you-

Keith Gruebele: So generally we're gonna look at the prior two years worth of tax returns, and then depending on where we are in the current year, we might look for a profit and loss statement. So if we see a continuation of income trends, and we feel very comfortable with the customer, which again after looking at healthcare returns for over 18 years, we have a pretty good understanding of. We don't even bother asking for profit and loss then we can move forward with it. Our goal is to be really easy and hassle free though.

There are other times later on in the year where we're gonna say, you know what our profit and loss statement generally happens after June or so. The profit and loss statement will help us substantiate any income.

Gene Marks: Are you as interested in a balance sheet? Cause you're just talking profit and loss, I'm not hearing that-

Keith Gruebele: No, the balance sheet really isn't as much of interest for us. It's all about the income statement, it's all about watching the profitability and seeing how the money's flown through the practice at the point in time.

Gene Marks: Generally though, Banker's Healthcare Group doesn't when you talk about collateralization and assets and all of that, it's generally not what you guys require. My understanding is, where as traditional banks sometimes do, and the reason why I bring that up is because if you are looking for financing with a more traditional bank, you might find a traditional bank wanting to see your balance sheets.

Keith Gruebele: Correct, so we don't require any hard collateral. So it gives us flexibility in what we're looking at. Our goal in our financing options is quick and hassle free as possible.

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Gene Marks: Got it.

Keith Gruebele: So we look at the main financials, and again we've done nothing but healthcare. So we get a really good perspective of what this looks like, what the customer looks like at this point in time. And we can make a determination pretty quickly on whether we wanna lend or not.

Gene Marks: Got it.

Keith Gruebele: Now you said assets and that's a good one because one of the things that we hear a lot about is, short term assets verses long-term assets. Let's talk a little bit about that Gene, how would you differentiate those two?

Gene Marks: Well, first of all whenever you're short term and long term in the definition of accounting, is something that's basically going to come due within a year. Okay, it's a one-year verses more than one year kind of thing. So if you have a short-term asset, somebody says, oh what are you're short-term assets, right? So it's accounts receivable is an asset, that's money that your customers, your patients, your clients owe you. And generally they're gonna pay you, hopefully within the next month. If it's my business it's probably six or seven months, but I don't even wanna go there. So but it's okay, it's still within a year right? And so that's generally a short-term asset.

However, if you have an asset that's more of a piece of equipment or even furniture and fixtures, a computer—Well you're gonna have that, for more than a year so therefor that's a long term asset. And the same thing happens on the liability side. Short term liabilities are ones that you plan on paying back within a year, and a long term liability for example, debt that you might owe to a financial institution or to a lender.

Keith Gruebele: Or the giant practice.

Gene Marks: Right it might be due in three or five years or whatever it is, and so that's all a long term asset. That's all.

Keith Gruebele: Awesome.

Jessica Page: I have no more words. That's pretty much perfect, yup.

Gene Marks: Nailed that one, didn't I? [crosstalk 00:16:12]

Keith Gruebele: Perfect, I think a lot of people look at this next term and it gets confusing because overhead can be misconstrued in a lot of different ways. A lot of people will think overhead includes my rent and my cellphone bill and my utility bills, and my everything. My subscriptions to the magazines that are in the lobby, and the coffee service and the water service. Other folks think overhead is just kind of the fixed monthly payments that are due every month, or whatever appears on a debt line.

How would you define overhead for when it comes to a business specifically?

Jessica Page: My thought generally is it's, every expense that's not an expense directly related to doing the business that you are in. So, if you are a doctor things that are very specific to you providing your services. Everything else outside of that is your overhead. I don't know if you see this, think of it the same way?

Gene Marks: I define overhead as Sam, Josh and Leah, which are the names of my three kids. Everything else is in variable expenses. And let me tell you, it's pretty high. No, what Jess said is absolutely right and some people do consider it to be fixed and some people do consider having a variable portion to it. But really it's the month-to-month cost that you need to run your business, regardless of whether you have any clients or patients.

Keith Gruebele: Excellent, and we jump into that again from a finance perspective because looking at that overhead often times will be calculated into your debt to income ratio, your debt to service ratio. So looking at that verses what your income is, or your revenue is I should say, helps us understand how you'll be able to service the debts that you're borrowing.

So again, very key terms I think that apply to any business, but very specific especially when you're talking about the potential of getting a loan or kind of leveraging the business. Or really transitioning that business, buying a business or selling a business, these are all really key terms that you should have a good understanding or a little bit of a grasp on.

Gene Marks: Yeah, I've gotta say and you're speaking, Keith this is what you do for a living and this is a company that extends financing to businesses. And you expect your perspective customers and clients to have a handle on these terms, or at least to provide you this information, right?

Keith Gruebele: I counter you there because I think most banks do. Most banks are gonna expect somebody to know these terms, and we realize that the healthcare professional is really great at practicing healthcare. And most people that are out there are tremendous clinicians, and know exactly what they're doing and provide a great service to the community. And this is a little bit kind of messy to them. It's hard, that stuff that they really don't understand and are not comfortable with. So we don't expect them to know it, we like to educate them on it, and I love that we're doing that on here.

I think that it helps give a better perspective. For me the more important part is we don't expect you to know it, but for you're own knowledge I think it's great for you to know it. Because these are the terms that you're gonna wanna know when you're growing your business. And when you're leveraging your

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business, and if your looking to consolidate or inquire another practice. I think this is great stuff to kind of demystify the whole financial experience, and that's a lot about what these podcasts are about.

It's not just perfecting the practice and growing it, but in pairing with enough knowledge to be able to kind of move forward in your career. And progress and grow, and I think that you guys are adding such tremendous value in doing that so I can't thank you enough for once again giving us all this time so generously.

Jessica Page: Absolutely, no problem.

Gene Marks: Appreciate it.

Keith Gruebele: Awesome, well guys I think we've added a ton of value here and I know that those are a lot of terms to digest and run through. But the radio-

Gene Marks: There will be a test at the end of this podcast.

Keith Gruebele: There is a test coming up very shortly on your screen. No the great news is that you could always rewind this, pop back through it. We really suggest going back through these podcasts and kind of picking up one or two things, and I'd say to all the healthcare professionals listening out there. A lot of times this can feel overwhelming, information comes at you from so many different places. Really try to take one or two things away from each of these podcasts, and if you can do that and apply it, that would be great. If you have any questions at all, please feel free to stop by bankershealthcaregroup.com or connect with me directly on LinkedIn. I'd be happy to walk you through any questions you have, and help get you on that path to perfecting your practice. Thanks again guys for popping in, spending some time with us, I hope that this is adding value to all of you out there, and we look forward to speaking with you again on our next session.

Jessica Page: Thanks Keith.

Gene Marks: Thanks Keith.

Keith Gruebele: Have a great one.

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