Accounting Principals

Revenue Cycle- The **revenue cycle** is defined as all administrative and clinical functions that contribute to the capture, management, and collection of patient service **revenue**. It can be considered the entire life of a patient account from creation to payment. The goal of revenue Cycle is to minimize the time between providing services and the reimbursement for the services.

Accounting Cycle- A method of recording the transactions in a business to provide accuracy and conformity among businesses. Includes income statement, balance sheet, cashflow statement and changes in equity.

Balance Sheet- Summary of a company's assets, liabilities and shareholder equities. For-profit hospital systems would have shareholder payments. Physician groups may have bonuses based on productivity due periodically.

Fiscal Year- The time period defined by a business or health care facility as their financial year. (Normally January 1-December 31 or begins with the start of a quarter, such as July 1-June 30.)

Trial Balance- This is a statement that separates all of the debits and credits to make sure the bookkeeping system is accurate.

Shareholders- Individuals who own stock in a company.

Cashflow- Money going into and out of a business over a period of time. Hospitals have periodic reports such as monthly, quarterly and annual statements of cashflow.

General Ledger- A companies complete financial information from inception to present day.

Return on Investment- Unit of measurement used to identify the gain on a venture based on the original investment.

Profitability Ratios- Ratios used by businesses to show their return on investments (ROI). The ratios include the profit margin, return on assets and return on equity.

Accrual Accounting- Records revenues and expenditures as they occur. For example, patient charges would be posted on the date of service.

Straight–line Depreciation- The life of the item and the value at the end of that period is estimated. The loss of value is determined by subtracting the estimated value from the initial cost, and the amount is then used as the depreciation for each month or year.

Straight–line Depreciation- The life of the item and the value at the end of that period is estimated. The loss of value is determined by subtracting the estimated value from the initial cost, and the amount is then used as the depreciation for each month or year.
Example- A doctor's office purchases a new arthroscope for $20,000. It is estimated to be worth $10,000 in 5 years. By subtraction the depreciation amount is $10,000.
$10,000 can be depreciated over the 5 years or $2,000 per year.

Accounts Payable- Money a company owes such as an insurance payment received but the service was denied or payment due for supplies or utilities.

Accrued Expenses- Expenses incurred but not yet paid.

Cost of Goods Sold- Direct cost of production of goods sold or services provided including labor and raw materials. For hospitals and physician practices, this includes nursing staff, office staff, OR equipment, supply costs. CMS expects charges to be based on these costs.

Net Loss- The amount of money lost by a company during a specified period of time.

Profit and Loss Statement- A financial statement of a company's performance showing revenue and expenses over a period of time to determine if the company is profitable or losing money.

Expenses- Costs of doing business and have 4 categories- fixed, variable, accrued and operational.

Fixed expenses- Regular amounts due that are the same each billing period such as a mortgage payment.

Variable Expense- Expense that changes from one billing period to another.

Liabilities- Any debt owed or financial debt to be paid.

Current Liabilities- Business liabilities that are usually paid within a year.

Creditors- Entities a business or person owes money to.

Operational Expenses- Any business expenses not directly related to the cost of product manufacturing or the provision of a service. Marketing and insurance are examples.

Accounts Receivable- Money due to a company for goods or services such as insurance reimbursement or payment for a piece of equipment/DME.

Assets- Anything a company owns that can be converted to cash.

Asset Classes- A set of securities that react similarly. Includes shares, bonds, property.

Current Assets- Cash, accounts receivable and items like inventory that are usually liquidated within a year.

Fixed assets- These assets include property, buildings and major equipment which are usually held for more than one year.

Capital- All of a company's assets that have financial value. This would include capital equipment such as OR instruments but not expendable items.

Working Capital- The amount of money a company has to work with calculated by subtracting current liabilities from current assets.

Equity or Owners' Equity- Ownership in a business by an individual or stockholders.

Income Statement- Shows revenues minus expenses for a certain period of time. Required annually.

Net Income- The amount of revenue left after obligations such as taxes are paid.

Net Profit- The amount of money a company has made after deducting expenses from revenue.

Statement of Retained Earnings- A financial statement of the earnings of a company minus the shareholder dividends paid.

Variance Analysis- Often performed to see how actual revenue and expense differs from the budgeted amounts.

Diversification- Spreading capital over a variety of investments to decrease risk such as stock funds with 10 or more stocks or stocks plus bonds. It can also apply to having more than one product type or service line.

Liquidity Ratios- Shows how liquid an organization is which impacts ability to pay bills. Includes current ratio, quick ratio, quick assets and net working capital ratio.

Insolvency- Liabilities of a company exceed the assets so the monetary obligations cannot be met.

Forensic Audit- A review of all financial transactions of a company that is suitable for legal use.

Bad debt- The amount of revenue written off as uncollectible (very common in healthcare).