

Tips for Tracking the Health of the Bottom Line

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SAN DIEGO — Preparing a budget and regularly compiling financial reports are critical for any physician practice to maintain a healthy bottom line, financial experts said at the annual meeting of the American College of Physicians.

"It's important to keep your eye on your cash flow," said Margo J. Williams of the ACP Practice Management Center in Washington.

A number of standard financial monitoring tools—balance sheets, income statements, budgets, and accounts receivable reports—can help give physicians an overall picture of how the practice is doing and provide early warning of potential problems.

The balance sheet is often misunderstood, said Carl B. Cunningham, director of the ACP Practice Management Center. For the average physician practice, the balance sheet is mainly useful when trying to sell the practice because it lists the accumulated assets and liabilities.

'An awful lot of practices never bother to prepare a budget. I would strongly encourage you to do so because what it does is provide a planned income statement.'

However, because the balance sheet is really just a snapshot of one point in time, it's not very useful in managing the practice day to day, he said.

A better tool for daily management of the practice is the income statement, Mr. Cunningham said. This allows physicians to measure, over a specific period, their revenues and expenses. He recommends analyzing the income statement monthly.

But the income statement also has a drawback: It describes the financial state of the practice, but it doesn't help determine how the practice should be performing. That's where having a budget comes in, Mr. Cunningham said.

"An awful lot of practices never bother to prepare a budget," he said. "I would strongly encourage you to do so because what it does is provide a planned income statement."

By preparing a budget, physicians can sit down in advance and figure out where they want to be financially and what types of expenses and revenue will be needed to get there. This type of budgeting exercise can be done for the whole practice, as well as when evaluating new ancillary services. And because the budget is there to serve as the guideline, it can also help physicians delegate some financial tasks to other staff, Mr. Cunningham said.

"Accounts receivable management is another area that is critical to monitoring the financial status of your practice," Ms. Williams said.

Accounts receivable is an area where everyone from the front desk receptionist to the physician can play a role, she said. The goal should be to get things right the first time in terms of getting out clean

claims, staying on top of denials, and finding out why claims are being denied.

Continuous monitoring of accounts receivable also is important. Some of the tools that physicians and their staff can use to oversee this area include tracking the days in accounts receivable, to find out how long it takes to collect, and calculating gross and net collection ratios, which show how much is being collected.

The average number of days that charges spend in accounts receivable can be calcu-

lated in two steps. First, take the total charges and divide by 365 days to get the average daily charges. Then, take the total accounts receivable balance and divide by the average daily charges. For most practices, the average number of days in accounts receivable is about 37, Ms. Williams said.

Collection ratios can be helpful in determining the share of the accounts receivable that has actually been collected. But when calculating collection ratios, keep in mind that the gross collection ra-

tio is easy to figure out but is influenced by the fee discount contracted with payers, and so, it is not a pure measure of collections performance.

The net collection ratio is a better indicator of performance because it is based on contracted fees that can actually be collected. However, this number is difficult to calculate without a sophisticated practice management system that builds accurate payer fee schedules into the computer, Ms. Williams said. ■

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* Advisory Committee on Immunization Practices. † Tetanus, diphtheria, and acellular pertussis. ‡ 19-64 years of age. § 11-18 years of age.

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