

Accounts Payable and Accounting Procedures

- A quick easy breakdown for MA students

Accounts payable, aka A/P or payable, refers to the total amts owed by the practice to suppliers and other service providers for regular business operating expenses. This includes unpaid invoices; bills; or statements for goods or services provided by outside contractors, vendors, or suppliers

The job of the accounts payable office personnel is a serious responsibility. Not paying bills on time and according to the specific terms and conditions can affect the office's credit ratings and ultimately business relationships

Expenditure is acquired material, property, or labor in exchange for money

An invoice is a document that includes itemization of goods and purchases or services provided together w/ the charges and terms of the agreement

Medical facilities often have a need for a petty cash fund to use when small payments are required, usually ranging from \$25 to \$100. A voucher form or expenditure list should be completed every time a payment is made from this fund

There are 2 organizations primarily responsible for establishing GAAP. The first is FASB, which is a private organization. The 2nd is the SEC, which is a government agency that requires companies to file financial reports following GAAP

There are 2 integral aspects of accounting: operating info and managerial accounting info

- Operating info is needed on a day-to-day basis for a company to conduct business
- Managerial accounting, aka cost accounting is the study and analysis of financial data as it applies to operational issues within a company

Components of the single-entry system include:

1. General ledger (or journal)
2. Accounts receivable (A/R) ledger
3. Accounts payable (A/P) ledger
4. A petty cash fund
5. Payroll records

The basis for all financial accounting is the accounting formula. This formula is (assets minus liabilities equals net worth)

$$\text{Assets} - \text{liabilities} = \text{net worth}$$

Assets are the money and items of value in a business. Liabilities are debts or accounts payable owed by a business

Accounts receivable ratio. The A/R are all the outstanding accounts or amts still due from the pt. The A/R ratio helps you understand how quickly outstanding are paid as well as the effectiveness of the office collection process. The formula is:

Current A/R balance / avg monthly gross production = A/R ratio

The turnaround time has a goal of 2 months or less

The gross collection ratio includes the total payments received by a practice for a specific period of time, not including any write-offs. W/ this ratio, the bigger the better because it shows the % of money flow back into the office

The net collection ratio is aka the adjusted collection ratio. Rates should be between 90 and 100% after write offs are taken

Write offs are charges that are deemed uncollectible by any business

The cost ratio formula demonstrates the cost of a specific procedure or service. It helps identify the cost-effectiveness of a service offered at the office. The formula is:

$$\frac{\text{Total expenses}}{\text{total \# of procedures for one month}} = \text{cost ratio}$$

An income statement demonstrates profit and expenses for a given month and includes year-to-date info for a given year. Info found on this statement includes:

- Revenue
- Overhead expenses
- Providers compensation and benefits
- Employees compensation and benefits
- Marketing expenses
- Outside resources
- Withholding taxes

The balance sheet, aka a statement of financial position, reveals a company's assets, liabilities, and owners equity. Gives us an idea of the medical facility's financial position along w/ a picture of what the company owns and owes

The trial balance is prepared at the end of an accounting period, and is to provide a check that the debits equal the credits after posting

Summary

- Accounts payable, (A/P), refers to the total amts owed by the practice to suppliers and other service providers for regular business operating expenses
- Expenditure is acquired material, property, and labor in exchange for money
- Accounting systems include single entry and double entry
- Operating info is needed on a day-to-day basis for a company to conduct basis
- Managerial accounting (cost accounting) is the study and analysis of financial data as it applies to operational issues within a company
- The basis for all financial accounting is the accounting formula:

$$\text{Assets} - \text{liabilities} = \text{net worth}$$

- The 2 types of collection ratios are gross collection ratio and net collection ratio
- The cost ratio formula demonstrates the cost of a specific procedure or service

- Cost benefit analysis enables program evaluation by demonstrating whether the benefits received outweigh its costs
- Write offs are charges that are deemed uncollectable by any business
- The 2 most common financial statements are the income statement and the balance sheet. The function of the income statement is to report profit or loss
- The trial balance is prepared at the end of an accounting period