



Accounts Receivable from Third-Party Payors A GAAP Refresher

Generally Accepted Accounting Principles (or GAAP) govern how healthcare entities prepare their financial statements. GAAP is not a single accounting rule, but rather the aggregate of many rules on how to account for various transactions.

Most healthcare entities participate in payment programs that pay less than full charges for services rendered. Accordingly, there is often a delay in time between the date of medical service and the payment date. Making matters more complicated, many payments are subject to billing reviews, retroactive adjustments or other queries which may occur over a considerable period of time. As such, the lengthy period of time between rendering services and reaching final settlement, compounded by the complexities and ambiguities of reimbursement regulations, makes it difficult to estimate the ultimate amount of revenue earned from these programs.

GAAP accounting standards require service revenue and the related patient accounts receivable, including amounts due from third-party payors, to be reported net of contractual and other adjustments. Since amounts ultimately collectible will not be known until some future date, which may be months or years after services are provided, healthcare entities need to make estimates in order to record revenue and related patient receivables in the financial statements. The basis for such estimates may range from relatively straightforward calculations to highly complex judgments based upon assumptions about future events and decisions.

Accounting standards recognize that estimates are inherently uncertain and that outcomes may not ultimately occur as anticipated. Accordingly, such estimates are reevaluated each time financial statements are prepared. Any differences between original and current estimates are generally reported in the income statement in the period that the revisions are made rather than as an adjustment to the prior period.

As accounting for healthcare revenues is complex, please contact us if you would like further information in this area.

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Best Regards,



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