Cost Accounting, Processes and Financial Reporting

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Financial Reporting Definitions

- A **Balance Sheet** is a statement of the financial position of a business which states the assets, liabilities, and owners' equity at a particular point in time. In other words, the balance sheet illustrates your business's net worth.

- An **income statement** is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.
  - Also known as the **profit and loss statement** or statement of revenue and expense.
  - Unlike the balance sheet, which covers one moment in time, the income statement provides performance information about a time period.
  - The income statement is used to compare year-over-year (YOY) and quarter-over-quarter (QOQ) performance.

- **Cash flow** is the net amount of cash and cash-equivalents moving into and out of a business. In accounting, cash flow is the difference in amount of cash available at the beginning of a period and the amount at the end of that period. Generally, there are two methods under which you can do your accounting; the cash method and the accrual method
  - If customers don't pay at time of purchase, some of your cash flow is coming from collections of accounts receivable
  - The accrual method of accounting doesn't worry about cash flow and instead focuses on when revenue was actually earned and when expenses where actually incurred
  - Accrual method of accounting allows for better budgeting and planning because it looks at when liabilities are incurred and revenue earned and not when cash is paid.

Financial Accounting for Oral chemotherapy vs. IV chemo

- IV Chemotherapy
  - Expense and revenue both occur on same DOS.
  - Charted in EMR that interfaces with the PMS
  - Claim goes out automatically from PMS
  - PMS data is used to create the financial statements

- Oral Chemotherapy
  - Includes a patient variability – expense and revenue often do not occur on the same day (or month)
  - Expenses in one month and revenue accrual in the following month affects financial statement.
  - Retail computer does not interface with the PMS - requires manual entry into the PMS – more chance of errors occurring.
  - Medicare part B secondary insurance not handled same as a copay
  - Reversals confound the financials and baffle the business office staff.

What did not work - otherwise known as Biggest Blooper

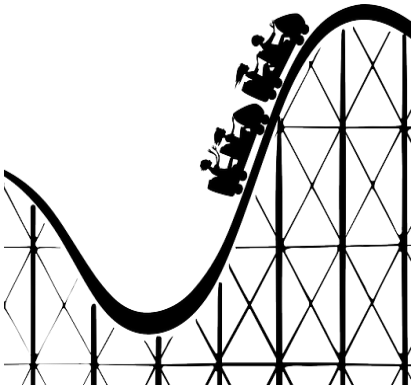
- CBO tried to use same accounting methods as used for IV accounting instead of using acquisition cost and total revenue from sales analysis report in QS1
  - Expenses = prior EOM inventory + purchases +/- transfers - next EOM inventory
  - Revenue = what was posted in the PMS

- Central business office posted off the Daily Audit log the following day. Pended Rx for PA or financial assistance were posted into the PMS as if they were sold.
  - created Phantom AR : revenue accrued without a corresponding expense
  - Falsely increased cash flow
  - adjustments to future income statements were required
  - did not account for reversals

- Tried voiding pended Rx after 48 hours and posting after 72 hours.
  - Increased manual work – not efficient
  - end of month rush to enter into PMS
  - still had some Rx with expense in 1 month and revenue in the next month

Attempt #2 : Documenting Sold Rx

- QS1 “will call” function used to document sold Rx. The signature log is used to indicate the Rx is sold.
- Customized reports created in QS1 : sold report, sales analysis of sold Rx, error resolution report.
- Instead of using daily audit log to post, the CBO used the sold report.
- All drugs not sold, including those adjudicated, are counted in inventory until sold.
  - Revenue and expenses occur in the same month for financial statements
  - Expenses = prior EOM inventory + purchases +/- transfers - next EOM inventory
- Still does not answer the question of reversals
- IOD techs forgot to enter on will call report occasionally – not posted in PMS
- Medicare part B did not show up in “will call” to enter sold date unless all the HME required dates were entered.
- End result : Revenue on the financial statements was reported too low.



The Fix ??

Absolute AR is an independent accounts receivable service (owned by NHIN) that provides information on aging totals (down to the Rx level), sales and payments. Absolute AR will be implemented to provide an EOM report of net patient revenue.

- It provides claim chasing after 60 days for all claims except Medicare part B
- This interfaces with QS1 already. We can continue to use QS1 reports as a double check and auditing tool.
- This is an automated process - no more manual entry into PMS
- This service loads claims and applies payments weekly
- Live checks can be scanned in and the file uploaded
- EOM general ledger balancing report provided and this is what will be used for the P&L revenue.
- IOD expenses are also in the sales and gross margin report. This will be verified against the acquisition cost in QS1.
- monthly cost is reasonable and will eliminate many current manual processes

Question yet to be answered

- When is Rx considered as sold? Adjudication vs signature log
- Will expense and revenue occur in the same month (inventory processes affected)
- How are reversals dealt with?
- DIR fees considered?
- CBO acceptance and training
- When to “pull the plug “ on entry into the PMS
- Come to next NCODA meeting for the results…

Questions