Efficiency in Practice
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Conducting A Practice Financial Analysis: Three Critical Calculations

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In order to keep your medical practice financially sound, you must be able to collect financial data and understand what this data is telling you about your current collection rate and your future collection rate.

Financial health can be as symptomatic as your physical health. Identifying the symptoms and treating them early can help your practice avoid a major financial illness in the future.

The following are three critical ratios that you should calculate regularly in order to know where your practice stands from a financial perspective:

1. **Gross Collection Rate** – the gross collection rate is calculated by dividing the total payments by the gross charges for the same period of time. You should calculate this on a monthly, quarterly and annual basis. The gross collection rate will tell you what percentage of your total charges is collectable with respect to your managed care contracts and patient mix.

   Total Payments
   ÷
   Gross Charges

2. **Net Collection Rate** – the net collection rate is calculated by dividing the total payments by net charges for the same given period of time. Again, you should calculate this on a monthly, quarterly and annual basis to get a true picture of your practice over key timeframes. The net collection rate will tell you what percentage of your collectable revenue you are actually collecting. Please note that net charges are calculated by subtracting contractual write-offs, write-offs and adjustments from gross charges. [Gross Charges – Total Write-Offs and Adjustments = Net Charges.

Total Payments
÷
Net Charges

3. **Days in Accounts Receivables Ratio** – will identify how long on average is takes from the time of service to the receiving of payments for that service. This calculation includes payments from insurance companies and patients. To calculate the ratio, divide the practice's total accounts receivable by the net charges. (See how to calculate net charges in #2 above). Then you must multiply this calculation by 30 (average number of days in a month) to get the average number of days in accounts receivables.

Accounts Receivables
÷
Net Charges
X
30

We challenge each of you to take the time from your busy schedules to calculate those three critical numbers for your practice for the month of January and then to commit to doing so each month during 2010.

If you have any questions or concerns, feel free to email us at editor@efficiencyinpractice.com. We will work with our Senior Consultant, Duane Sheldon, to get your questions answered.

Duane Sheldon is a Senior Consultant with InHealth Consulting & Educational Services, specializing in the analysis of medical practices' billing and collections processes. For Duane's complete biography and to contact him for consulting services, visit the Consultants page at www.efficiencyinpractice.com.

Sue Kay is the editor of Efficiency in Practice, the free eNewsletter for medical practice managers who want to save time, money and reduce risk. For more information and to access your FREE report, The 8 Things You MUST Know About CMS' RAC Program, visit www.efficiencyinpractice.com.