**Numbers for Nurses:**
**ASC Accounting and Finance**

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**Why this topic?**

If you manage an ASC, or will manage one in the future, you will need to know some accounting terms and processes.

Understanding basic accounting will help you understand the financial structure of your surgery center so you can provide better management.

**Overview of Training**

- Review of financial statements
- Accounting basics
- Practical uses of the information
Elements of Financial Reports

- **Timely**: Statements and management ratios should be completed and received within 15–20 working days of the end of each month.
- **Accurate**: Consistent – no question about the data.
- **Brief**: One or two pages – more is not better!
- **Comparative**: Previous operating results or anticipated budgets
- **Trend Analysis**: Examined over several periods to identify trends.

Financial Statements

- **Balance Sheet**
- **Income Statement**

Balance Sheet Terminology

- **Basic Accounting Equation**
  
  Assets = Liabilities + Owner’s Equity

  You buy a car for $25,000. You put $10,000 down and borrow $15,000 from the bank.
  - What is the asset value?
  - What is the liability?
  - What is the equity?

  “On a given day what a practice owns must equal what it owes (either to creditors or its owners).”
Review of Basic Accounting Equation

The sum of an ambulatory surgery center’s assets must always be equal to the sum of its liabilities and the value of the owner’s equity.

Accounting for Transactions

Three types of accounts in which transactions are entered:

1. **Asset accounts** (i.e., cash, receivables, and inventory).
2. **Liability accounts** (i.e., accounts payable, debt).
3. **Owner’s equity accounts** (i.e., paid-in capital and retained earnings).

Double Entry Accounting

Utilized to ensure the basic accounting equation always remains in balance.

Transaction 1

Dr. Peterson sets up an ASC corporation on January 1, 2014. He invests $50,000 and deposits it into a checking account.

What assets does the ASC have at this point? What liabilities? What equity?

Balance Sheet at 1/1/14

Transaction 1: Peterson ASC, Inc.

| ASSETS = | LIABILITIES = | OWNER’S EQUITY = |
| + $50,000 CASH | -0- | + $50,000 COMMON STOCK |

Current Assets:
- Cash: $50,000
- Accounts Receivable: $0
- Inventory: $0

Total Current Assets: $50,000

Current Liabilities:
- Accounts Payable: $0

Total Current Liabilities: $0

Tangible Assets:
- Equipment: $0
- Furnishings: $0

Total Tangible Assets: $0

Long-Term Liabilities:
- Owner’s Equity: $0

Total Long-Term Liabilities: $0

Owner’s Equity:
- Paid-in Capital: $50,000
- Retained Earnings: $0

Total Owner’s Equity: $50,000

Total Assets: $50,000

Total Liabilities and Owner’s Equity: $50,000
## Transaction 2

Peterson ASC, Inc. purchases equipment worth $30,000 on January 2, 2014.

### Balance Sheet at 1/2/14

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>=</th>
<th>LIABILITIES</th>
<th>+</th>
<th>OWNER'S EQUITY</th>
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</thead>
<tbody>
<tr>
<td>– $30,000 CASH</td>
<td></td>
<td>$30,000 ACCOUNTS PAYABLE</td>
<td></td>
<td>$50,000</td>
</tr>
<tr>
<td>+ $30,000 EQUIPMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Current Assets:**
- Cash: $20,000
- Accounts Receivable Inventory: $20,000

**Total Current Assets:** $20,000

**Tangible Assets:**
- Equipment: $30,000
- Furnishings: $30,000

**Total Tangible Assets:** $30,000

**Total Assets:** $50,000

**Current Liabilities:**
- Accounts Payable: $20,000

**Total Current Liabilities:** $20,000

**Long-Term Liabilities:** $0

**Owner's Equity:**
- Paid in Capital: $50,000
- Retained Earnings: $50,000

**Total Liabilities and Owner's Equity:** $50,000

## Transaction 3

On January 3, 2014, Peterson Dispensary, Inc. purchases inventory for $20,000 (on account).

### Balance Sheet at 1/3/14

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>=</th>
<th>LIABILITIES</th>
<th>+</th>
<th>OWNER'S EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ $20,000 INVENTORY</td>
<td></td>
<td>+ $20,000 ACCOUNTS PAYABLE</td>
<td></td>
<td>-0-</td>
</tr>
</tbody>
</table>

**Current Assets:**
- Cash: $20,000
- Accounts Receivable Inventory: $20,000
- Inventory: $20,000

**Total Current Assets:** $40,000

**Tangible Assets:**
- Equipment: $30,000
- Furnishings: $30,000

**Total Tangible Assets:** $60,000

**Total Assets:** $70,000

**Current Liabilities:**
- Accounts Payable: $20,000

**Total Current Liabilities:** $20,000

**Long-Term Liabilities:** $0

**Owner's Equity:**
- Paid in Capital: $50,000
- Retained Earnings: $50,000

**Total Liabilities and Owner's Equity:** $70,000
Transaction 4
On January 4, 2014, Peterson ASC, Inc. does surgeries for $14,000 in cash; $6,000 in supplies are used.

Balance Sheet at 1/4/14
Current Assets:  Current Liabilities
Cash $34,000 Accounts Payable $20,000
Accounts Receivable $14,000
Inventory $14,000
TOTAL $48,000 TOTAL $20,000
Long-Term Liabilities -0-
Tangible Assets  Owner's Equity
Equipment $30,000 Paid in Capital $50,000
Furnishings Retained Earnings $8,000
TOTAL $30,000 TOTAL $58,000
Total Assets $78,000 Total Liabilities and Owner's Equity $78,000
ASSETS = LIABILITIES + OWNER'S EQUITY
+$14,000 CASH = -$6,000 INVENTORY – $6,000 EXPENSE (COST OF GOODS SOLD)
+$8,000 RETAINED EARNINGS

Transaction 5
On January 5, 2014, the supplier from whom supplies were purchased was paid $20,000.

Balance Sheet at 1/5/14
Current Assets:  Current Liabilities
Cash $14,000 Accounts Payable -0-
Accounts Receivable $14,000
Inventory $14,000
TOTAL $28,000 TOTAL -0-
Long-Term Liabilities -0-
Tangible Assets  Owner's Equity
Equipment $30,000 Paid in Capital $50,000
Furnishings Retained Earnings $8,000
TOTAL $30,000 TOTAL $58,000
Total Assets $58,000 Total Liabilities and Owner's Equity $58,000
ASSETS = LIABILITIES + OWNER'S EQUITY
– $20,000 CASH = – 20,000 ACCOUNTS PAYABLE

Transaction 4: Peterson ASC, Inc.
Transaction 5: Peterson ASC, Inc.
**Transaction 6**

On January 6, 2014, additional inventory that cost $4,000 is used for surgeries that will bring in $11,000. $5,000 is received in cash for the surgeries, the balance of $6,000 is billed to insurance companies.

### Balance Sheet at 1/6/14

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>=</th>
<th>LIABILITIES</th>
<th>+</th>
<th>OWNER’S EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ $ 5,000 CASH</td>
<td>=</td>
<td>-0-</td>
<td>+</td>
<td>$11,000 REVENUES</td>
</tr>
<tr>
<td>+ $ 6,000 ACCOUNTS RECEIVABLE</td>
<td>=</td>
<td>-0-</td>
<td>+</td>
<td>$ 4,000 EXPENSES (COST OF GOODS SOLD)</td>
</tr>
<tr>
<td>– $ 4,000 INVENTORY</td>
<td>=</td>
<td>-0-</td>
<td>+</td>
<td>$ 7,000 RETAINED EARNINGS</td>
</tr>
</tbody>
</table>

**Current Assets:**
- Cash: $19,000
- Accounts Receivable: $6,000
- Inventory: $10,000

**Total:** $35,000

**Tangible Assets:**
- Equipment: $30,000
- Furnishings: $10,000

**Total:** $40,000

**Total Assets:** $65,000

**Current Liabilities:**
- Accounts Payable: -0-

**Total:** -0-

**Long-Term Liabilities:** -0-

**Owner’s Equity:**
- Paid in Capital: $50,000
- Retained Earnings: $10,000

**Total:** $60,000

**Total Liabilities and Owner’s Equity:** $65,000

**ASSETS = LIABILITIES + OWNER’S EQUITY**

– $ 5,000 CASH = -0- + $11,000 REVENUES
– $ 6,000 ACCOUNTS RECEIVABLE = -0- + $ 4,000 EXPENSES (COST OF GOODS SOLD)
– $ 4,000 INVENTORY = -0- + $ 7,000 RETAINED EARNINGS

**Transaction 7**

On January 7, 2014, payroll of $5,000 is paid to the employees.

### Balance Sheet at 1/7/14

| ASSETS = | LIABILITIES = | + | OWNER’S EQUITY = |
|---------|---------------|---|-----------------
| – $ 5,000 CASH | = | -0- | ($ 5,000 PAYROLL PAID) |
| – $ 5,000 RETAINED EARNINGS | | | |

**Current Assets:**
- Cash: $14,000
- Accounts Receivable: $6,000
- Inventory: $10,000

**Total:** $30,000

**Tangible Assets:**
- Equipment: $30,000
- Furnishings: $10,000

**Total:** $40,000

**Total Assets:** $60,000

**Current Liabilities:**
- Accounts Payable: -0-

**Total:** -0-

**Long-Term Liabilities:** -0-

**Owner’s Equity:**
- Paid in Capital: $50,000
- Retained Earnings: $10,000

**Total:** $60,000

**Total Liabilities and Owner’s Equity:** $60,000

**ASSETS = LIABILITIES + OWNER’S EQUITY**

– $ 5,000 CASH = -0- ($ 5,000 PAYROLL PAID)
– $ 5,000 RETAINED EARNINGS = -0-
Depreciation of Tangible Assets

A process of expensing a portion of the cost of a tangible asset over several accounting periods (years).

Tax vs. accounting guidelines
Straight line vs. accelerated methods
Capitalizing vs. expensing certain items

Asset Categories

Current Assets
- Cash or other assets that can be sold or consumed in the near future.

Tangible Assets
- Non-current assets including furniture, equipment, and leasehold improvements.

Other Assets
- Other non-current assets such as investments or deposits.

Liabilities

Current Liabilities
- Liabilities due in the same interval in which current assets will be consumed. An interval of one year is normally used.

Long-Term Liabilities
- Long-term loans or leases due, less amounts due within 12 months.

Owner’s Equity

Paid-In Capital
- Investment made by the owners.

Retained Earnings
- Sum of all accumulated earnings after taxes and dividends paid.
Sample Balance Sheet

ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$50,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$5,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>$15,000</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$70,000</td>
</tr>
<tr>
<td>Furniture/Fixtures/Equipment</td>
<td></td>
</tr>
<tr>
<td>At Cost</td>
<td>$125,000</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(75,000)</td>
</tr>
<tr>
<td>Net Book Value</td>
<td>$50,000</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$120,000</td>
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</tbody>
</table>

LIABILITIES AND OWNERS' EQUITY

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>Taxes Payable</td>
<td>$1,500</td>
</tr>
<tr>
<td>Current Portion of Long-Term Debt</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$11,500</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td></td>
</tr>
<tr>
<td>Notes Payable</td>
<td>$90,000</td>
</tr>
<tr>
<td>Less Current Portion of Long-Term Debt</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$80,000</td>
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<tr>
<td>Owners’ Equity</td>
<td></td>
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<tr>
<td>Paid in Capital</td>
<td>$3,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>$29,500</td>
</tr>
<tr>
<td>Current Year Net Income (Accumulated Deficit)</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Total Owners’ Equity</td>
<td>$28,500</td>
</tr>
<tr>
<td>TOTAL LIABILITIES AND OWNERS’ EQUITY</td>
<td>$120,000</td>
</tr>
</tbody>
</table>

Income Statement (Profit and Loss Statement, P&L)

Cash vs. Accrual Methods of Accounting

Cash Basis

- Income measured when cash is received.
- Expenses measured when cash is spent.
- May distort “true” picture of financial performance.

Accrual Basis

- Income measured when services rendered.
- Expenses measured when transaction occurred.
- Provides more accurate assessment of practice performance.

Most practices and ASCs prepare financial statements on the cash method.

Income Statement Terminology

<table>
<thead>
<tr>
<th>Description</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Money received for services in a given period.</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>Costs incurred during the same period related to production of income.</td>
</tr>
<tr>
<td>Non-Operating Revenue &amp; Expenses</td>
<td>Investment income such as dividends and interest; non-operating expenses such as depreciation.</td>
</tr>
</tbody>
</table>
### Sample Income Statement

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>Period Ending 12/31/XX</th>
<th>Pct of Rev</th>
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<tbody>
<tr>
<td>Collections</td>
<td>$1,000,000</td>
<td>100.0%</td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>$1,000,000</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Administrative Supplies</td>
<td>$30,000</td>
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<tr>
<td>Billing Service</td>
<td>$67,000</td>
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<tr>
<td>Building Rent</td>
<td>$77,000</td>
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<tr>
<td>Employee Benefits</td>
<td>$45,000</td>
</tr>
<tr>
<td>Employee Salaries</td>
<td>$260,000</td>
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<tr>
<td>Information Services</td>
<td>$12,000</td>
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<tr>
<td>Insurance</td>
<td>$22,000</td>
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<tr>
<td>Medical Supplies</td>
<td>$250,000</td>
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<tr>
<td>Promotion/Marketing</td>
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<tr>
<td>Telephone</td>
<td>$12,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>$24,000</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>$800,000</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

### Case Study

**Microsoft Excel Worksheet**

### Expenses

**Fixed Expenses**
- Do not vary with number of patients seen.
- Categories include rent, most salary, insurance, and utilities.
- Relevant range of activity.
- Increases or decreases are more incremental.
- Measure of business risk.

**Variable Expenses**
- Proportional to level of business activity.
- Relate to number of patients or units of service.
- Examples include medical and surgical supplies, some salaries.

### Practical Application

- What is our cost per case? Per cataract case?
- Which surgical services are most profitable?
- Strategically, what type of surgeons should we recruit?
- Should we accept a proposed rate from an insurance company?
**New Case**

**Cost per Case**

- **Cost** = **Total Expenses**
- **Expenses** ÷ **number of cases** = **CPC**

- **Total Expenses**: $710,043
- **Number of Cases**: 902
- **Cost per Case** = $787

**Behavior of Expenses**

- **Fixed Expenses**: $280,110
- **Variable Expenses**: CPC = $477

**Why can’t we use $787 as our cost per case in answering all of the previously posed questions?**
Cost per Case

COST PER CASE ANALYSIS
SURGICAL SUPPLY COSTS - CATARACT SURGERY

Facility Name:
Time Period: Total Cataract Cases:

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<th>Item</th>
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<td>Other (List)</td>
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<td>Suture 6-0 Silk</td>
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<tr>
<td>Sub-Total Admitting Supplies</td>
<td>$0.00</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>OR Supplies</td>
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<td>$0.00</td>
</tr>
<tr>
<td>Total Total</td>
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<td>$0.00</td>
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<tr>
<td>Sub-Total Medications</td>
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<tr>
<td>PACU</td>
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<td>$0.00</td>
</tr>
<tr>
<td>Number of Cases</td>
<td>0</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

TOTAL SUPPLY COSTS $0.00

Contribution Margin Analysis

Answers the question:
After variable expenses, how much will be contributed to fixed expenses (and profit)?

CONTRIBUTION ANALYSIS BY SERVICE LINE

<table>
<thead>
<tr>
<th></th>
<th>Cataract</th>
<th>YAG PC</th>
<th>Blepharoplasty</th>
<th>PRP</th>
</tr>
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<tbody>
<tr>
<td>Volume</td>
<td>658</td>
<td>132</td>
<td>73</td>
<td>39</td>
</tr>
<tr>
<td>Revenue</td>
<td>$624,242</td>
<td>$28,844</td>
<td>$65,500</td>
<td>$7,814</td>
</tr>
<tr>
<td>Variable Expense</td>
<td>$340,879</td>
<td>$18,250</td>
<td>$64,304</td>
<td>$6,500</td>
</tr>
<tr>
<td>Contribution Margin</td>
<td>$283,363</td>
<td>$10,594</td>
<td>$1,196</td>
<td>$1,314</td>
</tr>
<tr>
<td>CM per case</td>
<td>$430.64</td>
<td>$80.26</td>
<td>$16.38</td>
<td>$33.69</td>
</tr>
</tbody>
</table>

Summary

Understanding basic accounting will help you understand the financial position of your surgery center so you can provide better management.

Thank you for listening!

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