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Page Title: A Brief Guide to Financial Statements for Medical Practices | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] highlights the importance of financial knowledge for medical practices and the role of accounting software in managing finances.

Headline: A Brief Guide to Financial Statements for Medical Practices

BODY COPY:

Medical schools teach knowledge and skills that graduates will need to be good doctors. Running a medical practice requires a different set of skills, which medical schools typically do not teach. A medical practice is a business, so its goal, in part, is to make money for its owners. This requires knowledge about how to track financial performance over time. Accounting software allows business owners to keep records of income and expenses. It can also generate financial statements that can show a practice's financial state in the current moment, at any point in the past and over a span of time. This article offers an introduction to the most common financial statements, as well as the fundamental accounting principles that can help medical practice owners get the most use out of their statements.

Core Accounting Concepts for Medical Practices

Before jumping into the most important financial statements, it is important to understand several concepts used in accounting to track business performance. Some concepts might be familiar to most people. Profit, for example, is the amount of revenue that a business has after it has paid all of its expenses. Other concepts might not be as familiar but are just as important.

Assets, Liabilities and Equity

Most business accounting systems use the following equation, often known simply as the "Accounting Equation":

Assets = Liabilities + Equity

A practice's assets include cash and other items of value, such as:

- Bank account balances;
- Certificates of deposit and other semi-liquid assets;
- Accounts receivable, meaning money owed to the practice by patients, insurers and others;
- Real estate; and
- Depreciable property, such as an x-ray machine.

Liabilities include debts and other money owed to others, including:

- Business loans and lines of credit;
- Accounts payable, including rent, utilities and other expenses;
- Mortgage loans for real estate;
- Payroll expenses;
- Dividends payable to the owners; and
- Tax obligations.

A medical practice's equity is the amount left over if the practice, hypothetically, were to liquidate all of its assets and pay off all of its debts. The remaining amount could then be distributed to the business owners. Another way to express the Accounting Equation, therefore, would be "Equity = Assets - Liabilities."

Debit vs. Credit

The Accounting Equation relies on the double-entry bookkeeping system. Each transaction requires two entries in the company's ledger:

- **Debit:** The entry in the left column
- **Credit:** The entry in the right column

An entry in the debit column requires a corresponding entry in the credit column. Entries on the debit side increase the balance of asset accounts and decrease liability accounts, while entries on the credit side do the reverse:

- The practice receives a \$5,000 payment from an insurer. It debits that amount to its bank account (asset) and credits it to accounts receivable (also an asset). The bank account balance goes up while accounts receivable goes down.
- The practice makes a rent payment to its property management company. It credits its bank account (asset) and debits accounts payable (liability). Both accounts go down.

Cash vs. Accrual Accounting

A medical practice has two options regarding how it treats revenue:

- **Cash method:** The practice does not recognize income until it receives it in cash or cash equivalent, nor does it recognize expenses until it pays them.
- **Accrual method:** The practice recognizes income as soon as it earns it, and it recognizes expenses as it incurs them.

To offer an example, a practice that uses the cash method would not enter revenue in its books until it has received payment. It would only record an expense once it has sent payment. A practice that uses the accrual method would enter income or an expense in its books as soon as it sends out an invoice or receives a bill.

Types of Financial Statements

The following are the two most important financial statements for medical practices and many other kinds of businesses:

Balance Sheet

The balance sheet provides a snapshot of a practice's financial status at a particular moment in time. It lists all of the accounts found in the Accounting Equation and shows how they balance out.

The Equity section of the balance sheet can show the overall financial condition of the practice. One way to look at a practice's equity is as its net worth after all debts and other liabilities, but the balance sheet can go deeper than that. A common equity account known as "retained earnings," for example, represents the amount of equity that has not been distributed to owners. This is the portion of the profits that the owners are investing back into the practice.

Profit and Loss Statement

The profit and loss statement, or “P&L,” shows a practice’s income and expenses over a specific time period, such as a month, quarter or year. It can break down these amounts into categories like “income received from patients” or “income received from insurers” for revenues, and “utilities,” “rent” or “insurance premiums” for expenses. The bottom of the statement shows the practice’s net income for that time period.

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