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PRESENTATION AND DISCLOSURE OF REVENUE AND BAD DEBT EXPENSE BY CERTAIN HEALTHCARE ENTITIES

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In July 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-07 (ASU 2011-07) which changes the presentation of bad debt expense in the financial statements of certain healthcare providers. In addition, ASU 2011-07 requires additional disclosures related to major payor sources of revenue and allowances for doubtful accounts for those entities.

STAKEHOLDERS IMPACTING YOUR ORGANIZATION WHO MAY BE INTERESTED IN THIS ALERT INCLUDE:

- Chief Financial Officers
- Attorneys
- Bankers
- Controllers
- Audit Committee Members
- Financial Statement Preparers
- Members of Board of Directors
- Other Financial Statement Users

WHAT IS THE ISSUE?

Unlike most industries, healthcare providers are permitted to recognize revenue without consideration as to a patient’s ability pay. Many healthcare entities provide such services and present the related revenue in their financial statements at gross amounts. Significant bad debt expense related to this revenue is presented in the financial statements as an operating expense. This presentation affects the comparability of revenue from one healthcare provider to another.

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WHAT HEALTHCARE ENTITIES ARE AFFECTED AND HOW?

ASU 2011-07 affects healthcare providers that recognize “significant amounts” of patient service revenue at the time service is provided without assessing the patient's ability to pay. Examples provided include hospital emergency rooms that are required to provide service regardless of a patient’s ability to pay and healthcare entities that, as a policy, provide services without consideration as to a patient’s ability to pay.

The ASU changes the financial statements of affected entities in the following ways:

- Bad debt expense related to patient service revenue is to be presented as a deduction from revenue in an entity’s financial statements. This is required even if a portion of the entity’s patient service revenue is recognized only to the extent it expects to collect the amount billed. Only bad debt expense related to non-patient service revenues is to be presented as an operating expense.
- Disclosures of quantitative and qualitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable is required.
- Disclosures, by major payor source of revenue, of its policy for assessing collectability in determining the timing and amount of patient service revenue to be recognized is required.
- Disclosure, by major payor source of revenue, of its patient service revenue (net of contractual allowances) before the provision for bad debts is required.

IMPLEMENTATION AND EFFECTIVE DATE

Note that the term “significant amounts” is not defined. As such, it will be up to each entity to determine if significant amounts of revenue are recognized without giving consideration to a patient’s ability to pay.

Healthcare entities where all revenue is recognized subject to a patient’s ability to pay are not subject to the provisions of ASU 2011-07. Those entities will continue to report bad debt expense as an operating expense and do not need to make the additional disclosures indicated above.

The ASU is effective for public entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. For non-public entities it is effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter.

Early adoption is permitted for both public and non-public entities. At the time of adoption the requirement to present bad debt expense as a deduction from patient service revenue is to be applied retrospectively for all periods presented.