Medical Accounting

- **Fee for Service vs Value Based Care Payment Models**
  Fee for Service vs Value Based Care Payment Models How HCC Coding Affects Risk Adjustment Scores DRGs and Their Role in Hospital Reimbursement Medicare Advantage and Risk Adjustment Strategies Addressing Disparities in Reimbursement Rates Understanding ESRD Risk Adjustment Models The Impact of Chronic Conditions on Reimbursement Optimizing Documentation for Risk Adjustment Challenges in Bundled Payment Models Auditing Risk Adjustment Coding Accuracy State Variations in Medicaid Reimbursement Future of Reimbursement in Telehealth Services
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Revenue cycle management (RCM) in medical coding is an essential process that ensures healthcare providers receive timely payments for services rendered, thus maintaining the financial health of their organizations. Within this complex system, clearinghouses play a pivotal role by streamlining the intricacies involved in billing and claims processing.

Clearinghouses act as intermediaries between healthcare providers and insurance payers, facilitating the exchange of information necessary for claims submission. By doing so, they help reduce errors and improve efficiency in the RCM process. Without clearinghouses, the manual handling of claims would be significantly more labor-intensive and prone to mistakes, ultimately delaying payments and impacting a healthcare provider's cash flow.

Healthcare facilities use staffing agencies to manage seasonal patient surges **premier medical staffing** experience.

One of the primary functions of clearinghouses is to check medical claims for errors before they reach insurance companies. This preemptive measure is vital because it ensures that claims are clean and accurate when submitted, thereby reducing the likelihood of denials or rejections from insurers. Clearinghouses employ sophisticated software that can identify discrepancies such as incorrect patient information, coding errors, or mismatched data. By catching these issues early on, clearinghouses prevent potential delays that could arise from having to resubmit corrected claims.

Moreover, clearinghouses provide a standardized platform for electronic data interchange (EDI), enabling seamless communication between disparate systems used by various stakeholders in the healthcare industry. This standardization simplifies transactions across multiple payers who may have different requirements for claim submissions. As a result, healthcare providers experience faster turnaround times for reimbursement requests since they don't need to navigate varying protocols manually.

Additionally, clearinghouses offer tracking capabilities that give healthcare providers insight into where their claims are within the payment process at any given time. This transparency allows them to follow up promptly on outstanding or denied claims and take corrective actions if necessary. Such proactive management not only expedites revenue collection but also improves overall financial performance.

In summary, clearinghouses serve as indispensable components in revenue cycle management within medical coding by ensuring accuracy and efficiency in claim submissions while fostering effective communication among all parties involved. Their role

mitigates administrative burdens on healthcare providers and accelerates cash flow through quicker reimbursements-ultimately supporting sustainable operations within an increasingly complex healthcare environment.

Key Differences Between Fee for Service and Value Based Care Payment Models —

Clearinghouses play a pivotal role in the revenue cycle of healthcare organizations, serving as essential intermediaries that enhance the efficiency and accuracy of medical billing processes. Their primary function is to facilitate the seamless transmission of medical claims from healthcare providers to insurance payers. By doing so, they help streamline what can otherwise be a complex and cumbersome process, ensuring that claims are processed expediently and accurately.

One of the core services provided by clearinghouses is claim scrubbing. This involves meticulously reviewing each claim for errors or inconsistencies before it reaches the payer. By identifying and correcting potential issues early on, clearinghouses significantly reduce the likelihood of claim denials or rejections, thus speeding up the reimbursement process for healthcare providers. This proactive approach not only minimizes delays but also enhances cash flow management for medical practices.

In addition to claim scrubbing, clearinghouses offer translation services that convert data from different formats into standardized electronic forms compatible with various payer systems. This capability is crucial in a landscape where multiple insurance companies may have distinct requirements for claim submissions. The standardization ensures that all necessary information is accurately conveyed, further reducing errors and facilitating smoother transactions between providers and payers.

Clearinghouses also provide robust reporting tools that give healthcare providers insights into their billing operations. These reports can highlight trends in claim denials, identify recurring issues, and provide actionable data to improve overall revenue cycle performance. By leveraging these insights, healthcare organizations can make informed decisions to optimize their billing practices and reduce financial loss due to uncollected payments.

Furthermore, clearinghouses serve as valuable resources for compliance with ever-evolving regulatory standards in healthcare billing. They stay abreast of changes in regulations such as those mandated by HIPAA (Health Insurance Portability and Accountability Act) and ensure that all submitted claims adhere to current guidelines. This compliance support is indispensable for healthcare providers who must navigate a complex legal landscape while focusing on patient care.

In summary, clearinghouses are integral components of the revenue cycle in healthcare settings. Through functions such as claim scrubbing, data translation, reporting capabilities, and regulatory compliance support, they enhance the efficiency and reliability of medical billing processes. By partnering with clearinghouses, healthcare providers can focus more on delivering quality care rather than being bogged down by administrative tasks related to claims processing. Ultimately, this leads to improved financial health for medical practices and better service delivery for patients.

Impact of Fee for Service on Medical Coding Practices

In the ever-evolving landscape of healthcare, the role of clearinghouses in streamlining claim submission processes is pivotal to the efficiency and effectiveness of revenue cycle

management. As healthcare providers seek to optimize their operations and ensure timely reimbursements, clearinghouses emerge as critical intermediaries that facilitate smooth communication between providers and payers. This essay explores how clearinghouses contribute to enhancing the claim submission process and ultimately support a more robust revenue cycle.

Clearinghouses serve as essential hubs in the complex web of healthcare transactions. They act as intermediaries that process claims from healthcare providers before they reach insurance payers. This intermediary role is crucial in ensuring that claims are accurate, complete, and compliant with payer requirements. By doing so, clearinghouses significantly reduce the likelihood of claim denials and delays, which can have a substantial impact on a provider's revenue stream.

One of the primary advantages offered by clearinghouses is their ability to standardize data formats across different systems. In an industry marked by diverse electronic health record (EHR) systems and varying payer requirements, this standardization is invaluable. Clearinghouses convert claims into standardized formats that meet specific payer criteria, thereby minimizing errors and discrepancies that could result in rejections or payment delays. This uniformity not only accelerates processing times but also enhances overall accuracy.

Furthermore, clearinghouses provide real-time feedback on submitted claims. This immediate response allows healthcare providers to quickly address any issues or inconsistencies before they escalate into larger problems. For instance, if a claim lacks necessary information or contains errors, clearinghouses can flag these issues almost instantaneously. Providers can then make corrections promptly, improving first-pass acceptance rates and reducing resubmission cycles.

In addition to error reduction and format standardization, clearinghouses offer robust reporting and analytics tools that empower providers with insights into their revenue cycle performance. These tools enable healthcare organizations to identify trends in claim denials or delays, pinpoint recurring issues, and implement targeted improvements in their billing processes. With access to such actionable data, providers can optimize their workflows for greater efficiency and financial outcomes.

Moreover, by handling much of the administrative burden associated with claims processing-such as verifying eligibility or managing multiple payer requirements-clearinghouses allow healthcare staff to focus more on patient care rather than administrative tasks. This shift not only enhances productivity but also contributes positively towards patient satisfaction by

ensuring smoother operational flows within medical practices.

In conclusion, clearinghouses play an indispensable role in streamlining claim submission processes within the broader context of revenue cycle management in healthcare settings. Their ability to standardize data formats across disparate systems while providing real-time feedback makes them vital partners for any provider aiming for operational excellence amidst growing regulatory complexities surrounding reimbursement protocols today's dynamic environment demands adaptability resilience from all stakeholders alike-and it is precisely here where innovative solutions like those provided via trusted partnerships between practitioners insurers find common ground fostering mutual success shared goals long-term sustainability vision realized through collaborative efforts seamless integration cutting-edge technologies designed meet challenges head-on together united front forward-thinking approach modern-day medicine finance intersect harmoniously benefit everyone involved patients foremost forefront endeavors always guiding principle underlying endeavor achieve quality service delivery without compromise integrity dedication hard work perseverance commitment excellence hallmark every successful venture undertaken behalf communities served tirelessly day out throughout years come promising bright future indeed lies ahead horizon beckons exploration endless possibilities await discovery anew each sunrise brings fresh hope renewed inspiration boundless opportunity embrace wholeheartedly journey continues onward upward!

How Value Based Care Influences Medical Coding and Documentation Requirements

Medical coding is a critical component of the healthcare industry, serving as a foundational element in the revenue cycle management process. The accuracy and compliance of medical coding not only ensure that healthcare providers receive appropriate reimbursement for services rendered but also maintain regulatory standards and minimize the risk of audits and penalties. In this intricate ecosystem, clearinghouses play a pivotal role in enhancing accuracy and compliance, acting as intermediaries that streamline the submission and processing of medical claims.

Clearinghouses serve as vital conduits between healthcare providers and insurance payers, facilitating seamless communication by translating various formats of data into standardized electronic transactions. This standardization is crucial for reducing errors that can occur due to discrepancies in data interpretation or entry. By ensuring that claims are formatted correctly before submission, clearinghouses significantly reduce the likelihood of claim rejections due to technical errors.

Moreover, clearinghouses contribute to compliance by implementing robust validation checks against current coding guidelines and payer-specific requirements. They automatically flag discrepancies such as incorrect codes or mismatches between diagnostic information and billing codes, which helps healthcare providers rectify potential issues before claims reach insurers. This proactive approach not only speeds up the reimbursement process but also minimizes the risk of non-compliance with regulatory requirements such as those set forth by HIPAA (Health Insurance Portability and Accountability Act) and other governing bodies.

Another significant advantage provided by clearinghouses is their ability to offer real-time feedback on submitted claims. Healthcare providers gain immediate insights into any problems with their submissions, allowing them to quickly address issues rather than waiting weeks for feedback through traditional mail processes. This efficient communication loop enhances both accuracy in coding practices and overall operational efficiency within healthcare facilities.

Furthermore, clearinghouses often offer analytical tools that help healthcare organizations track key metrics related to claim processing times, rejection rates, and financial performance. These insights enable providers to identify patterns or recurring errors in their coding practices, thereby facilitating continuous improvement efforts aimed at enhancing accuracy over time.

In summary, clearinghouses are indispensable players in the realm of medical coding within revenue cycle management. Their ability to streamline processes through standardization, ensure compliance through rigorous validation checks, provide real-time feedback on claim status, and offer valuable analytical insights collectively enhances both the accuracy of

medical codes used by healthcare providers and their adherence to necessary regulations. As healthcare organizations continue striving for excellence amidst an ever-evolving landscape marked by regulatory changes and technological advancements, leveraging the expertise offered by clearinghouses will remain essential in achieving optimal outcomes for all stakeholders involved.

Challenges and Benefits of Transitioning from Fee for Service to Value Based Care in Medical Coding

In the intricate landscape of healthcare revenue cycle management, the role of clearinghouses emerges as a pivotal component in reducing denials and enhancing cash flow. These entities serve as vital intermediaries between healthcare providers and payers, streamlining the claims submission process to ensure accuracy and efficiency. Their contribution is indispensable in an era where financial sustainability for healthcare organizations hinges on meticulous claims management.

At its core, a clearinghouse acts as a filter that meticulously reviews claims before they are submitted to insurance companies. This preemptive scrutiny is crucial in identifying errors or omissions that could lead to claim denials. By catching these mistakes early, clearinghouses significantly reduce the likelihood of denials, which can be both time-consuming and costly for healthcare providers. The reduction in denied claims translates directly into improved cash flow, as providers receive payments more swiftly and with less administrative burden.

Moreover, clearinghouses facilitate electronic data interchange (EDI), transforming how information is exchanged between providers and payers. This digital transformation enhances the speed and accuracy of the entire billing process. By automating data exchange, clearinghouses minimize human errors that often occur with manual entry, thus further

decreasing potential grounds for claim rejections.

Another critical function of clearinghouses is their ability to provide real-time feedback on submitted claims. This immediate response mechanism allows healthcare organizations to quickly address any issues, resubmit corrected claims without delay, and maintain a steady inflow of revenue. Such agility ensures that cash flow remains uninterrupted even when discrepancies are detected.

Furthermore, clearinghouses offer valuable analytics and reporting tools that enable providers to gain insights into their billing processes. These tools help identify patterns or recurring issues that may be contributing to denials. Armed with this information, healthcare organizations can implement targeted strategies to rectify systemic problems, thereby continuously enhancing their revenue cycle efficiency.

The role of clearinghouses extends beyond merely facilitating transactions; they act as strategic partners in optimizing revenue cycle performance. By reducing claim denials through meticulous claim scrubbing and offering robust analytical capabilities for continuous improvement, they play an essential role in ensuring financial stability for healthcare providers.

In conclusion, clearinghouses are integral to modern revenue cycle management by mitigating claim denials and fostering improved cash flow through enhanced accuracy and speed in claim processing. Their contributions not only streamline operations but also empower healthcare organizations to focus more on patient care rather than administrative hurdles. As such, embracing the capabilities offered by clearinghouses is not just beneficial; it is imperative for sustaining financial health in today's complex healthcare environment.

Case Studies Highlighting the Effects of Different Payment

Models on Medical Coding Efficiency

In the intricate landscape of healthcare, where efficiency and accuracy are paramount, clearinghouses play an indispensable role in the revenue cycle. These intermediaries serve as bridges between healthcare providers and insurance payers, ensuring that claims are processed smoothly and promptly. As the demand for precision and speed intensifies, technological advancements in clearinghouse solutions have emerged as pivotal catalysts for transforming how these entities function.

Traditionally, clearinghouses acted primarily as conduits for information transfer-receiving claims from providers, formatting them to meet payer specifications, and forwarding them accordingly. However, with the advent of cutting-edge technologies such as artificial intelligence (AI), machine learning (ML), and blockchain, their role has expanded far beyond basic data transmission.

One significant advancement is the integration of AI into clearinghouse operations. AI's capacity to analyze vast datasets swiftly enables these systems to identify errors or discrepancies in claims before they reach payers. This proactive approach not only reduces claim rejections but also accelerates payment cycles by minimizing back-and-forth communications between providers and payers to resolve issues. Moreover, AI-driven analytics offer providers valuable insights into claim trends and potential areas for improvement, enhancing overall financial performance.

Machine learning further augments these capabilities by continuously refining algorithms based on historical data patterns. This allows clearinghouses to anticipate payer requirements more effectively and adjust claim submissions accordingly. The self-improving nature of ML ensures that over time, the accuracy of claims processing becomes increasingly precise, leading to higher approval rates on initial submissions.

Blockchain technology introduces another layer of innovation by providing a secure and transparent framework for transactions within the healthcare ecosystem. Its immutable ledger

system ensures that all parties involved in a transaction can access verified data without concerns about tampering or inaccuracies. For clearinghouses, this means enhanced trustworthiness in handling sensitive patient information while maintaining compliance with rigorous regulatory standards such as HIPAA.

Moreover, advancements in electronic data interchange (EDI) protocols continue to streamline communication processes among stakeholders. Enhanced EDI functionalities allow for real-time status updates on claims processing and reimbursement timelines, empowering healthcare providers with timely information necessary for informed decision-making.

These technological strides collectively redefine the role of clearinghouses from mere intermediaries to strategic partners in optimizing revenue cycles. They enable healthcare organizations not only to increase operational efficiencies but also to focus more resources on delivering quality patient care rather than administrative burdens.

Nevertheless, embracing these innovations is not without challenges. Healthcare entities must invest in training personnel adept at navigating these sophisticated systems while ensuring robust cybersecurity measures are in place to protect sensitive data from breaches or unauthorized access.

In conclusion, technological advancements are revolutionizing clearinghouse solutions within the healthcare revenue cycle domain by enhancing accuracy, speed, transparency-and ultimately-financial outcomes for all stakeholders involved. As technology continues its relentless march forward amidst evolving industry demands; it is evident that those who harness its potential will lead the charge toward a more streamlined future where seamless collaboration between providers and payers becomes standard practice rather than aspiration.

About financial accounting

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Part of a series on

Accounting

Early 19th-century German ledger

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- Constant purchasing power
- Historical cost
- Management
- Tax

Major types

- Audit
- Budget
- Cost
- Forensic
- Financial
- Fund
- Governmental
- Management
- Social
- Tax

Key concepts

- Accounting period
- Accrual
- Constant purchasing power
- Economic entity
- Fair value
- Going concern
- Historical cost
- Matching principle
- Materiality
- Revenue recognition
- Unit of account

Selected accounts

- Assets
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- Cost of goods sold
- Depreciation / Amortization (business)
- Equity
- Expenses
- Goodwill
- Liabilities
- Profit
- Revenue

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- Generally-accepted principles
- Generally-accepted auditing standards
- Convergence
- International Financial Reporting Standards
- International Standards on Auditing
- Management Accounting Principles

Financial statements

- Annual report
- Balance sheet
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- Notes to the financial statements

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People and organizations
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- **Accounting organizations**
- **Luca Pacioli**

Development
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Financial accounting is a branch of **accounting** concerned with the summary, analysis and reporting of financial transactions related to a business.**[1]** This involves the preparation of **financial statements** available for public use. **Stockholders**, **suppliers**, **banks**, **employees**, **government agencies**, **business owners**, and other **stakeholders** are examples of people interested in receiving such information for decision making purposes.

Financial accountancy is governed by both local and international accounting standards. **Generally Accepted Accounting Principles** (GAAP) is the standard framework of guidelines for financial accounting used in any given jurisdiction. It includes the standards, conventions and rules that accountants follow in recording and summarizing and in the preparation of financial statements.

On the other hand, **International Financial Reporting Standards** (IFRS) is a set of accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the **International Accounting Standards Board** (IASB).**[2]** With IFRS becoming more widespread on the international scene, *consistency* in financial reporting has become more prevalent between global organizations.

While financial accounting is used to prepare accounting information for people outside the organization or not involved in the day-to-day running of the company, **managerial accounting** provides accounting information to help managers make decisions to manage the business.

Objectives

[edit]

Financial accounting and financial reporting are often used as synonyms.

1. According to International Financial Reporting Standards: the objective of financial reporting is:

> To provide financial information that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the reporting entity.[3]

2. According to the European Accounting Association:

> Capital maintenance is a competing objective of financial reporting.[4]

Financial accounting is the preparation of financial statements that can be consumed by the public and the relevant stakeholders. Financial information would be useful to users if such qualitative characteristics are present. When producing financial statements, the following must comply: **Fundamental Qualitative Characteristics:**

- **Relevance:** Relevance is the capacity of the financial information to influence the decision of its users. The ingredients of relevance are the predictive value and confirmatory value. Materiality is a sub-quality of relevance. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- **Faithful Representation:** Faithful representation means that the actual effects of the transactions shall be properly accounted for and reported in the financial statements. The words and numbers must match what really happened in the transaction. The ingredients of faithful representation are completeness, neutrality and free from error. It signifies that the accountants have acted in **good faith** during the process of representation.

Enhancing Qualitative Characteristics:

- **Verifiability:** Verifiability implies consensus between the different knowledgeable and independent users of financial information. Such information must be supported by sufficient evidence to follow the principle of objectivity.
- **Comparability:** Comparability is the uniform application of accounting methods across entities in the same industry. The principle of consistency is under comparability. Consistency is the uniform application of accounting across points in time within an entity.

- **Understandability:** Understandability means that accounting reports should be expressed as clearly as possible and should be understood by those to whom the information is relevant.
- **Timeliness:** Timeliness implies that financial information must be presented to the users before a decision is to be made.

Three components of financial statements

[edit]

Statement of cash flows (cash flow statement)

[edit]

The statement of cash flows considers the inputs and outputs in concrete cash within a stated period. The general template of a cash flow statement is as follows: *Cash Inflow - Cash Outflow + Opening Balance = Closing Balance*

Example 1: in the beginning of September, Ellen started out with $5 in her bank account. During that same month, Ellen borrowed $20 from Tom. At the end of the month, Ellen bought a pair of shoes for $7. Ellen's cash flow statement for the month of September looks like this:

- Cash inflow: $20
- Cash outflow:$7
- Opening balance: $5
- **Closing balance: $20 – $7 + $5 = $18**

Example 2: in the beginning of June, WikiTables, a company that buys and resells tables, sold 2 tables. They'd originally bought the tables for $25 each, and sold them at a price of $50 per table. The first table was paid out in cash however the second one was bought in credit terms. WikiTables' cash flow statement for the month of June looks like this:

- Cash inflow: $50 - *How much WikiTables received in cash for the first table. They didn't receive cash for the second table (sold in credit terms).*
- Cash outflow: $50 - *How much they'd originally bought the 2 tables for.*
- Opening balance: $0
- **Closing balance: $50 – 2*$25 + $0 = $50–50=$0** - *Indeed, the cash flow for the month of June for WikiTables amounts to $0 and not $50.*

Important: the cash flow statement only considers the exchange of **actual** cash, and ignores what the person in question owes or is owed.

Statement of financial performance (income statement, profit & loss (p&l) statement, or statement of operations)

[edit]

The statement of profit or income statement represents the changes in value of a company's accounts over a set period (most commonly one fiscal year), and may compare the changes to changes in the same accounts over the previous period. All changes are summarized on the "bottom line" as net income, often reported as "net loss" when income is less than zero.

The net profit or loss is determined by:

Sales (revenue)

– cost of goods sold

– selling, general, administrative expenses (SGA)

– depreciation/ amortization

= earnings before interest and taxes (EBIT)

– interest and tax expenses

= profit/loss

Statement of financial position (balance sheet)

[edit]

The balance sheet is the financial statement showing a firm's assets, liabilities and equity (capital) at a set point in time, usually the end of the fiscal year reported on the accompanying income statement. The total assets always equal the total combined liabilities and equity. This statement best demonstrates the basic accounting equation:

Assets = Liabilities + Equity

The statement can be used to help show the financial position of a company because liability accounts are external claims on the firm's assets while equity accounts are internal claims on the firm's assets.

Accounting standards often set out a general format that companies are expected to follow when presenting their balance sheets. **International Financial Reporting Standards** (IFRS) normally require that companies report **current** assets and liabilities separately from non-current amounts.[5][6] A GAAP-compliant balance sheet must list assets and liabilities based on decreasing liquidity, from most liquid to least liquid. As a result, current assets/liabilities are listed first followed by non-current assets/liabilities. However, an IFRS-compliant balance sheet must list assets/liabilities based on increasing liquidity, from least liquid to most liquid. As a result, non-current assets/liabilities are listed first followed by current assets/liabilities.[7]

Current assets are the most liquid assets of a firm, which are expected to be realized within a 12-month period. Current assets include:

- **cash** - physical money
- **accounts receivable** - revenues earned but not yet collected
- Merchandise inventory - consists of goods and services a firm currently owns until it ends up getting sold
- **Investee companies** - expected to be held less than one financial period
- **prepaid expenses** - expenses paid for in advance for use during that year

Non-current assets include **fixed** or long-term assets and **intangible assets**:

- *fixed (long term) assets*
  - property
  - building
  - equipment (such as factory machinery)
- *intangible assets*
  - copyrights
  - trademarks
  - patents
  - goodwill

Liabilities include:

- *current liabilities*
  - trade accounts payable
  - dividends payable
  - employee salaries payable
  - interest (e.g. on debt) payable
- *long term liabilities*
  - mortgage notes payable
  - bonds payable

Owner's equity, sometimes referred to as net assets, is represented differently depending on the type of business ownership. Business ownership can be in the form of a sole proprietorship, partnership, or a **corporation**. For a corporation, the owner's equity portion usually shows common stock, and retained earnings (earnings kept in the company). Retained earnings come from the retained earnings statement, prepared prior to the balance sheet.**[8]**

Statement of retained earnings (statement of changes in equity)

[**edit**]

This statement is additional to the three main statements described above. It shows how the distribution of income and transfer of dividends affects the wealth of shareholders in the company. The concept of retained earnings means profits of previous years that are accumulated till current period. Basic proforma for this statement is as follows:

Retained earnings at the beginning of period

+ Net Income for the period

- Dividends

= Retained earnings at the end of period.**[9]**

Basic concepts

[**edit**]

The stable measuring assumption

[**edit**]

One of the basic principles in accounting is "The Measuring Unit principle":

> The unit of measure in accounting shall be the base money unit of the most relevant currency. This principle also assumes the unit of measure is stable; that is, changes in its general purchasing power are not considered sufficiently important to require adjustments to the basic financial statements."**[10]**

Historical Cost Accounting, i.e., financial capital maintenance in nominal monetary units, is based on the stable measuring unit assumption under which accountants simply assume that money, the monetary unit of measure, is perfectly stable in real value for the purpose of measuring (1) monetary items not inflation-indexed daily in terms of the Daily CPI and (2) constant real value non-monetary items not updated daily in terms of the Daily CPI during low and high inflation and deflation.

Units of constant purchasing power

[edit]

The stable monetary unit assumption is not applied during hyperinflation. IFRS requires entities to implement capital maintenance in units of constant purchasing power in terms of IAS 29 Financial Reporting in Hyperinflationary Economies.

Financial accountants produce financial statements based on the accounting standards in a given jurisdiction. These standards may be the **Generally Accepted Accounting Principles** of a respective country, which are typically issued by a national standard setter, or **International Financial Reporting Standards** (IFRS), which are issued by the **International Accounting Standards Board** (IASB).

Financial accounting serves the following purposes:

- producing general purpose financial statements
- producing information used by the management of a business entity for decision making, planning and performance evaluation
- producing financial statements for meeting regulatory requirements.

Objectives of financial accounting

[edit]

- **Systematic recording of transactions:** basic objective of accounting is to systematically record the financial aspects of business transactions (i.e. book-keeping). These recorded transactions are later on classified and summarized logically for the preparation of financial statements and for their analysis and interpretation.
- **Ascertainment of result of above recorded transactions:** accountant prepares profit and loss account to know the result of business operations for a particular period of time. If expenses exceed revenue then it is said that the business is running under loss. The profit and loss account helps the management and different stakeholders in taking rational decisions. For example, if business is not proved to be remunerative or profitable, the cause of such a state of affairs can be investigated by the management for taking remedial steps.

- **Ascertainment of the financial position of business:** businessman is not only interested in knowing the result of the business in terms of profits or loss for a particular period but is also anxious to know that what he owes (liability) to the outsiders and what he owns (assets) on a certain date. To know this, accountant prepares a financial position statement of assets and liabilities of the business at a particular point of time and helps in ascertaining the financial health of the business.
- **Providing information to the users for rational decision-making:** accounting as a 'language of business' communicates the financial result of an enterprise to various stakeholders by means of financial statements. Accounting aims to meet the financial information needs of the decision-makers and helps them in rational decision-making.
- **To know the solvency position:** by preparing the balance sheet, management not only reveals what is owned and owed by the enterprise, but also it gives the information regarding concern's ability to meet its liabilities in the short run (liquidity position) and also in the long-run (solvency position) as and when they fall due.

Graphic definition

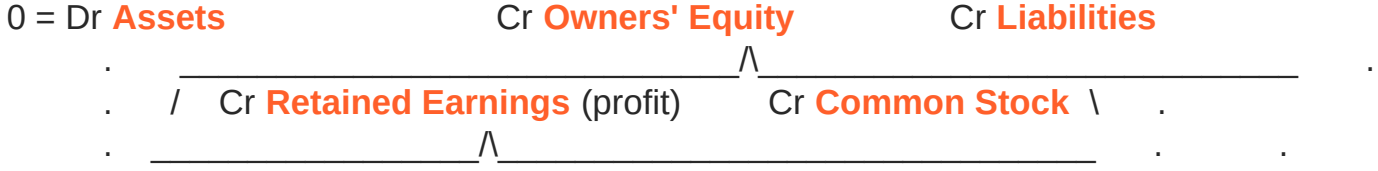
[edit]

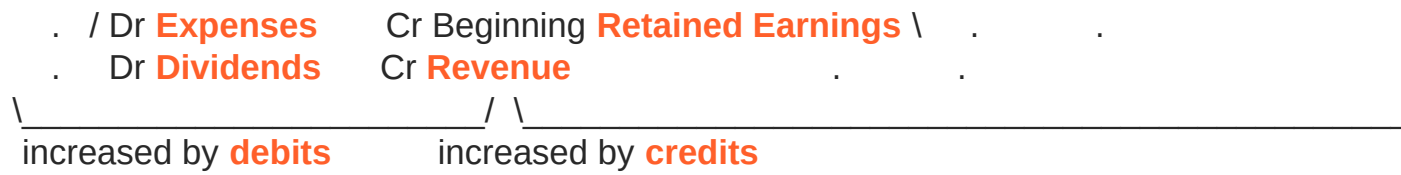
The **accounting equation** (**Assets** = **Liabilities** + **Owners' Equity**) and financial statements are the main topics of financial accounting.

The **trial balance**, which is usually prepared using the **double-entry accounting system**, forms the basis for preparing the financial statements. All the figures in the trial balance are rearranged to prepare a **profit & loss statement** and **balance sheet**. Accounting standards determine the format for these accounts (**SSAP**, FRS, **IFRS**). Financial statements display the income and expenditure for the company and a summary of the assets, liabilities, and shareholders' or owners' equity of the company on the date to which the accounts were prepared.

Asset, **expense**, and **dividend** accounts have normal debit balances (i.e., debiting these types of accounts increases them).

Liability, **revenue**, and **equity** accounts have normal credit balances (i.e., crediting these types of accounts increases them).





Crediting a credit
Thus ----------> account increases its absolute value (balance)
Debiting a debit

Debiting a credit
Thus ----------> account decreases its absolute value (balance)
Crediting a debit

When the same thing is done to an account as its normal balance it increases; when the opposite is done, it will decrease. Much like signs in math: two positive numbers are added and two negative numbers are also added. It is only when there is one positive and one negative (opposites) that you will subtract.

However, there are instances of accounts, known as contra-accounts, which have a normal balance opposite that listed above. Examples include:

- Contra-asset accounts (such as **accumulated depreciation** and allowances for bad debt or obsolete inventory)
- Contra-revenue accounts (such as sales allowances)
- Contra-equity accounts (such as **treasury stock**)

Financial accounting versus cost accounting

[**edit**]
See also: **Cost accounting**

1. Financial accounting aims at finding out results of accounting year in the form of Profit and Loss Account and Balance Sheet. Cost Accounting aims at computing cost of production/service in a scientific manner and facilitate cost control and cost reduction.
2. Financial accounting reports the results and position of business to government, creditors, investors, and external parties.
3. Cost Accounting is an internal reporting system for an organisation's own management for decision making.
4. In financial accounting, cost classification based on type of transactions, e.g. salaries, repairs, insurance, stores etc. In cost accounting, classification is basically on the basis of functions, activities, products, process and on internal

planning and control and information needs of the organization.
5. Financial accounting aims at presenting 'true and fair' view of transactions, profit and loss for a period and Statement of financial position (Balance Sheet) on a given date. It aims at computing 'true and fair' view of the cost of production/services offered by the firm.[11]

Related qualification

[edit]

Many professional accountancy qualifications cover the field of financial accountancy, including **Certified Public Accountant CPA**, **Chartered Accountant** (CA or other national designations, **American Institute of Certified Public Accountants AICPA** and **Chartered Certified Accountant** (**ACCA**).

See also

[edit]

- **Constant item purchasing power accounting**
- **DIRTI 5**
- **Historical cost accounting**
- **Philosophy of accounting**
- **Accounting analyst**, whose job involves evaluating public company financial statements
- **Management accounting**, the other main division of accounting
- **Bookkeeping**

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Further reading

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Accounting

Type	**Financial accounting** **Cost accounting** **Management accounting** **Forensic accounting** **Fund accounting** **Governmental accounting** **Social accounting** **Tax accounting**
Statements	**Income statement** **Balance sheet** **Statement of changes in equity** **Cash flow statement**

Terms	○ **Debits and credits** ○ **Revenue** ○ **Cost of goods sold** ○ **Operating expense** ○ **Capital expenditure** ○ **Depreciation** ○ **Gross income** ○ **Net income**

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About bookkeeping

For the computer programming concept, see **Boilerplate code**.


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Bookkeeping

Key concepts

- Daybooks
- Double-entry
- General ledger
- T Accounts
- Trial balance
- Journal
- Debits and credits
- Chart of accounts
- Petty cash
- Imprest system
- Bank reconciliation
- Ledger
- Single-entry
- Bookkeeper
- Assets
- Liabilities
- Equity
- Income
- Expenses
- Depreciation
- Accruals
- Prepayments
- VAT/GST

Financial statements

- Balance sheet
- Income statement

Related professions

- Accountant
- Accounting technician
- Accounts clerk

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Part of a series on

Accounting

Early 19th-century German ledger

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- Constant purchasing power
- Historical cost
- Management
- Tax

Major types

- Audit
- Budget
- Cost
- Forensic
- Financial
- Fund
- Governmental
- Management
- Social
- Tax

Key concepts

- Accounting period
- Accrual
- Constant purchasing power
- Economic entity
- Fair value
- Going concern
- Historical cost
- Matching principle
- Materiality
- Revenue recognition
- Unit of account

Selected accounts

- Assets
- Cash
- Cost of goods sold
- Depreciation / Amortization (business)
- Equity
- Expenses
- Goodwill
- Liabilities
- Profit
- Revenue

Accounting standards

- Generally-accepted principles
- Generally-accepted auditing standards
- Convergence
- International Financial Reporting Standards
- International Standards on Auditing
- Management Accounting Principles

Financial statements

- Annual report
- Balance sheet
- Cash-flow
- Equity
- Income
- Management discussion
- Notes to the financial statements

Bookkeeping

- Bank reconciliation
- Debits and credits
- Double-entry system
- FIFO and LIFO
- Journal
- Ledger / General ledger
- Trial balance

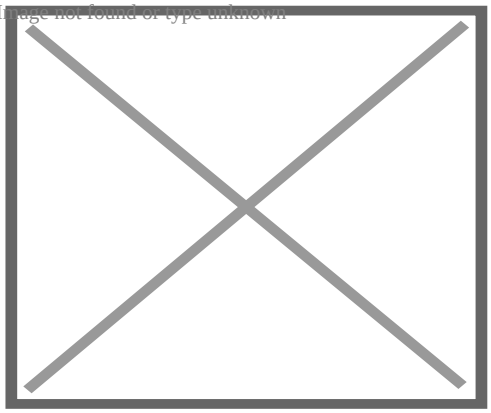
Auditing

- Financial
- Internal
- Firms
- Report
- Sarbanes–Oxley Act

People and organizations
- **Accountants**
- **Accounting organizations**
- **Luca Pacioli**

Development
- **History**
- **Research**
- **Positive accounting**
- **Sarbanes–Oxley Act**

Misconduct
- **Creative**
- **Earnings management**
- **Error account**
- **Hollywood**
- **Off-balance-sheet**
- **Two sets of books**



*Portrait of the Italian **Luca Pacioli***, painted by **Jacopo de' Barbari**, 1495, (**Museo di Capodimonte**). Pacioli is regarded as the Father of Accounting.

Bookkeeping is the recording of financial transactions, and is part of the process of **accounting** in **business** and other organizations.**[1]** It involves preparing source documents for all transactions, operations, and other events of a business. Transactions include purchases, sales, receipts and payments by an individual person, organization or corporation. There are several standard methods of bookkeeping, including the **single-entry** and **double-entry** bookkeeping systems. While these may be viewed as "real" bookkeeping, any process for recording financial transactions is a bookkeeping process.

The person in an organisation who is employed to perform bookkeeping functions is usually called the **bookkeeper** (or book-keeper). They usually write the ***daybooks***

(which contain records of sales, purchases, receipts, and payments), and document each financial transaction, whether cash or credit, into the correct daybook—that is, petty cash book, suppliers ledger, customer ledger, etc.—and the **general ledger**. Thereafter, an accountant can create **financial reports** from the information recorded by the bookkeeper. The bookkeeper brings the books to the **trial balance** stage, from which an accountant may prepare financial reports for the organisation, such as the **income statement** and **balance sheet**.

History

[**edit**]

The origin of book-keeping is lost in obscurity, but recent research indicates that methods of keeping accounts have existed from the remotest times of human life in cities. Babylonian records written with **styli** on small slabs of clay have been found dating to 2600 BC.**[2]** **Mesopotamian** bookkeepers kept records on clay tablets that may date back as far as 7,000 years. Use of the modern double entry bookkeeping system was described by **Luca Pacioli** in 1494.**[3]**

The term "**waste book**" was used in colonial America, referring to the documenting of daily transactions of receipts and expenditures. Records were made in chronological order, and for temporary use only. Daily records were then transferred to a daybook or account ledger to balance the accounts and to create a permanent journal; then the waste book could be discarded, hence the name.**[4]**

Process

[**edit**]

The primary purpose of bookkeeping is to record the *financial effects* of transactions. An important difference between a manual and an electronic accounting system is the former's latency between the recording of a financial transaction and its posting in the relevant account. This delay, which is absent in electronic accounting systems due to nearly instantaneous posting to relevant accounts, is characteristic of manual systems, and gave rise to the primary books of accounts—cash book, purchase book, sales book, etc.—for immediately documenting a financial transaction.

In the normal course of business, a document is produced each time a transaction occurs. Sales and purchases usually have **invoices** or **receipts**. Historically, deposit slips were produced when lodgements (deposits) were made to a **bank account**; and checks (spelled "cheques" in the UK and several other countries) were written to pay money out of the account. Nowadays such transactions are mostly made electronically. Bookkeeping first involves recording the details of all of these ***source***

documents into multi-column *journals* (also known as *books of first entry* or *daybooks*). For example, all credit sales are recorded in the sales journal; all cash payments are recorded in the cash payments journal. Each column in a journal normally corresponds to an account. In the **single entry system**, each transaction is recorded only once. Most individuals who balance their check-book each month are using such a system, and most personal-finance software follows this approach.

After a certain period, typically a month, each column in each **journal** is totalled to give a summary for that period. Using the rules of double-entry, these journal summaries are then transferred to their respective accounts in the **ledger**, or *account book*. For example, the entries in the Sales Journal are taken and a debit entry is made in each customer's account (showing that the customer now owes us money), and a credit entry might be made in the account for "Sale of class 2 widgets" (showing that this activity has generated revenue for us). This process of transferring summaries or individual transactions to the ledger is called *posting*. Once the posting process is complete, accounts kept using the "T" format (debits on the left side of the "T" and credits on the right side) undergo *balancing*, which is simply a process to arrive at the balance of the account.

As a partial check that the posting process was done correctly, a working document called an *unadjusted trial balance* is created. In its simplest form, this is a three-column list. Column One contains the names of those accounts in the **ledger** which have a non-zero balance. If an account has a *debit* balance, the balance amount is copied into Column Two (the *debit column*); if an account has a *credit* balance, the amount is copied into Column Three (the *credit column*). The debit column is then totalled, and then the credit column is totalled. The two totals must agree—which is not by chance—because under the double-entry rules, whenever there is a posting, the debits of the posting equal the credits of the posting. If the two totals do not agree, an error has been made, either in the journals or during the posting process. The error must be located and rectified, and the totals of the debit column and the credit column recalculated to check for agreement before any further processing can take place.

Once the accounts balance, the accountant makes a number of adjustments and changes the balance amounts of some of the accounts. These adjustments must still obey the double-entry rule: for example, the ***inventory*** account and asset account might be changed to bring them into line with the actual numbers counted during a **stocktake**. At the same time, the *expense* account associated with use of inventory is adjusted by an equal and opposite amount. Other adjustments such as posting **depreciation** and prepayments are also done at this time. This results in a listing called the *adjusted trial balance*. It is the accounts in this list, and their corresponding debit or credit balances, that are used to prepare the financial statements.

Finally **financial statements** are drawn from the trial balance, which may include:

- the **income statement**, also known as the *statement of financial results*, *profit and loss account*, or *P&L*
- the **balance sheet**, also known as the *statement of financial position*
- the **cash flow statement**
- the **statement of changes in equity**, also known as the *statement of total recognised gains and losses*

Single-entry system

[edit]
Main article: **single-entry bookkeeping**

The primary bookkeeping record in single-entry bookkeeping is the *cash book*, which is similar to a checking account register (in UK: cheque account, current account), except all entries are allocated among several categories of income and expense accounts. Separate account records are maintained for petty cash, **accounts payable** and **accounts receivable**, and other relevant transactions such as **inventory** and travel expenses. To save time and avoid the errors of manual calculations, single-entry bookkeeping can be done today with do-it-yourself bookkeeping software.

Double-entry system

[edit]
Main article: **double-entry bookkeeping**

A *double-entry bookkeeping system* is a set of rules for recording financial information in a **financial accounting** system in which every transaction or event changes at least two different ledger accounts.

Daybooks

[edit]

A *daybook* is a descriptive and chronological (diary-like) record of day-to-day **financial transactions**; it is also called a *book of original entry*. The daybook's details must be transcribed formally into journals to enable posting to ledgers. Daybooks include:

- Sales daybook, for recording sales invoices.
- Sales credits daybook, for recording sales credit notes.
- Purchases daybook, for recording purchase invoices.
- Purchases debits daybook, for recording purchase debit notes.
- Cash daybook, usually known as the cash book, for recording all monies received and all monies paid out. It may be split into two daybooks: a receipts daybook documenting every money-amount received, and a payments daybook recording

every payment made.
- General Journal daybook, for recording journal entries.

Petty cash book

[edit]

A ***petty cash*** book is a record of small-value purchases before they are later transferred to the ledger and final accounts; it is maintained by a petty or junior cashier. This type of cash book usually uses the **imprest system**: a certain amount of money is provided to the petty cashier by the senior cashier. This money is to cater for minor expenditures (hospitality, minor stationery, casual postage, and so on) and is reimbursed periodically on satisfactory explanation of how it was spent. The balance of petty cash book is **Asset**.

Journals

[edit]

Journals are recorded in the general journal daybook. A journal is a formal and chronological record of **financial transactions** before their values are accounted for in the general ledger as **debits and credits**. A company can maintain one journal for all transactions, or keep several journals based on similar activity (e.g., sales, cash receipts, revenue, etc.), making transactions easier to summarize and reference later. For every **debit** journal entry recorded, there must be an equivalent **credit** journal entry to maintain a balanced accounting equation.**[5][6]**

Ledgers

[edit]

A ***ledger*** is a record of **accounts**. The ledger is a permanent summary of all amounts entered in supporting Journals which list individual transactions by date. These accounts are recorded separately, showing their beginning/ending **balance**. A journal lists **financial transactions** in chronological order, without showing their balance but showing how much is going to be entered in each account. A ledger takes each financial transaction from the journal and records it into the corresponding accounts. The ledger also determines the balance of every account, which is transferred into the **balance sheet** or the **income statement**. There are three different kinds of ledgers that deal with book-keeping:

- Sales ledger, which deals mostly with the accounts receivable account. This ledger consists of the records of the financial transactions made by customers to the business.

- Purchase ledger is the record of the company's purchasing transactions; it goes hand in hand with the Accounts Payable account.
- General ledger, representing the original five, main accounts: **assets**, **liabilities**, **equity**, **income**, and **expenses**.

Abbreviations used in bookkeeping

[edit]

- A/c or Acc – Account
- A/R – Accounts receivable
- A/P – Accounts payable
- B/S – Balance sheet
- c/d – Carried down
- b/d – Brought down
- c/f – Carried forward
- b/f – Brought forward
- Dr – Debit side of a ledger. "Dr" stands for "**D**ebit **r**egister"
- Cr – Credit side of a ledger. "Cr" stands for "**C**redit **r**egister"
- G/L – General ledger; (or N/L – nominal ledger)
- PL – Profit and loss; (or I/S – income statement)
- P/L – Purchase Ledger (Accounts payable)
- P/R – Payroll
- PP&E – Property, plant and equipment
- S/L - Sales Ledger (Accounts receivable)
- TB – Trial Balance
- GST – **Goods and services tax**
- SGST – State goods & service tax
- CGST – Central goods & service tax
- IGST- integrated goods & service tax
- VAT – **Value added tax**
- CST – Central sale tax
- TDS – Tax deducted at source
- AMT – Alternate minimum tax
- EBT – Earnings before tax
- EAT – Earnings after tax
- PAT – Profit after tax
- PBT – Profit before tax
- Dep or Depr – Depreciation
- CPO – Cash paid out
- CP - Cash Payment
- w.e.f. - with effect from
- @ - at the rate of
- L/F – ledger folio
- J/F – Journal Folio

- M/s- Messrs Account
- Co- Company
- V/N or V.no. – voucher number
- In no -invoice Number

Chart of accounts

[edit]

A **chart of accounts** is a list of the **accounts** codes that can be identified with numeric, alphabetical, or alphanumeric codes allowing the account to be located in the general ledger. The equity section of the chart of accounts is based on the fact that the legal structure of the entity is of a particular legal type. Possibilities include *sole trader*, *partnership*, *trust*, and *company*.**[7]**

Computerized bookkeeping

[edit]

Computerized bookkeeping removes many of the paper "books" that are used to record the financial transactions of a business entity; instead, relational databases are used today, but typically, these still enforce the norms of bookkeeping including the **single-entry** and **double-entry** bookkeeping systems. **Certified Public Accountants** (CPAs) supervise the internal controls for computerized bookkeeping systems, which serve to minimize errors in documenting the numerous activities a business entity may initiate or complete over an accounting period.

See also

[edit]

- **Accounting**
- **Comparison of accounting software**
- **POS system**: records sales and updates stock levels
- **Bookkeeping Associations**

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External links

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Frequently Asked Questions

What is a clearinghouses primary function in the revenue cycle for medical billing?

A clearinghouse acts as an intermediary between healthcare providers and insurance payers. Its primary function is to review claims for errors, ensure they meet payer requirements, convert them into standardized formats, and then forward them to appropriate insurers for processing. This step helps reduce claim rejections and expedites payment.

How do clearinghouses improve the accuracy of medical coding?

Clearinghouses enhance accuracy by identifying coding errors or discrepancies before claims reach insurers. They use automated tools to check for compliance with current coding standards (such as ICD-10 or CPT codes) and alert providers about potential issues that need correction, thus minimizing denials due to incorrect codes.

Why are clearinghouses considered crucial in optimizing cash flow for healthcare providers?

Clearinghouses streamline the claims submission process by reducing manual entry errors, speeding up claim acceptance rates, and decreasing turnaround times for payments from insurers. This efficiency helps maintain a steady cash flow by ensuring quicker reimbursements and reducing administrative burdens on healthcare staff.

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