

Negotiations Between Auditors and their Clients Regarding Adjustments to the Financial Statements

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Objectives

- Importance of knowing the scope of the business
- Understand format and content:
 - Balance Sheet
 - Statement of operations
 - Statement of changes in net assets
 - Statement of cash flows

Statements

- **Balance sheet:**
 - assets = liabilities + equity
 - financial snapshot of the organization at a certain date
- **Statement of operations:**
 - video clip showing the running total of funds generated and expended during the period
- **Statement of changes in net assets:**
 - lists how equity changes during the period
- **Statement of cash flows:**
- **Notes to the financial statements:**
 - details on the org structure, accounting practices, and financial standing

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Statement of Operations

Revenue

Three sources

- Patient services revenue
- Other revenue
- Non operating gains (losses)

Patient Services Revenue

- Net patient services revenue - residual of gross patient less allowances
- Gross patient services revenue - the list price for services provided to the patient

Other Revenue

- generated from normal day-to-day operations not directly related to patient care
- usual sources:
 - educational programs
 - research and grants
 - rentals of space or equipment
 - sales of medical and pharmacy items to nonpatients
 - cafeteria shop
 - gift shop sales
 - parking lot sales
 - investment income on borrowed funds held by a trustee
 - investment income on malpractice trust funds

Nonoperating Gains (losses)

- Result from peripheral or incidental transactions
- These items are often categorized as nonoperating gains or losses:
 - Contributions or donations that are unrestricted income from endowments
 - Income from the investment of unrestricted funds
 - Gains or losses on sale of property
 - Net rentals of facilities not used in the operation of the facility

Operating Expenses

- In most general-purpose financial statements, costs are reported by cost object
 - Salaries and wages
 - Employee benefits
 - Supplies and purchased services
 - Advertising
 - Staff enrichment
 - Occupancy cost
 - Depreciation and amortization
 - Interest
 - Provision for bad debts
- Expenses and expenditures may not be equivalent in any given period
 - Retirement or repayment of debt
 - Investment in new fixed assets
 - Increases in working capital or current assets

Statement of Operations

For the year ended December 31

(in thousands)

| | 2012 | 2011 | 2010 |
|---------------------------------|-----------------|----------------|-----------------|
| Direct Written Premium | \$ 183,102 | \$ 180,664 | \$ 163,058 |
| Not Written Premium | 167,787 | 169,383 | 154,405 |
| Change in Unearned Premium | (2,074) | (1,222) | (3,975) |
| Net Earned Premium | 168,712 | 168,161 | 150,430 |
| Losses | (95,246) | (108,413) | (89,500) |
| Loss Adjustment Expenses | (16,862) | (15,262) | (10,842) |
| Underwriting Expenses | (54,444) | (53,254) | (48,687) |
| Underwriting Profit | (838) | (8,768) | 1,401 |
| Net Investment Income | 8,780 | 8,400 | 9,369 |
| Other Income | 2,845 | 3,132 | 2,891 |
| Federal Income Taxes | (1,492) | 25 | (3,211) |
| Net Income | 9,293 | 2,789 | 10,450 |
| Other Direct Changes in Surplus | 1,720 | (1,998) | 477 |
| Net Changes in Surplus | \$11,014 | \$791 | \$10,927 |

\$300,000

160,000

460,000

\$910,000

Current Assets

- Assets that are expected to be exchanged for cash or consumed during the operating cycle of the entity

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Cash and Cash Equivalents

- Cash consists of coin, currency, and available deposited funds at the bank
- Cash equivalents include savings accounts, certificates of deposit, and other temporary marketable securities **TheCaseSolutions.com**
 - Two categories must be met:
 - management must intend to convert the investment into cash within 1 year or during the operating cycle
 - must be readily marketable and capable of being transformed into cash easily

Accounts Receivable

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- Represent legally enforceable claims on customers for prior services or goods
- The charges actually billed to patients are often settled for substantially less amounts
- The differences are known as allowances
 - Charity allowances
 - difference between established service rates and amounts actually charged to indigent patients
 - Courtesy allowances
 - the difference between established rates for services and rates billed to special patients, such as employees, physicians, and clergy
 - Doubtful allowances
 - difference between rates billed and amounts expected to be recovered
 - Contractual allowances
 - represent the largest deduction from accounts receivable

Inventories i
that are to b
services T

- Represent t
the healthca
any improve
 - water an
 - roadway
 - fences
 - sidewalk
 - shrubber
- Land may n
improvement

• The a
asset

Inventories and Supplies

Inventories in a healthcare facility represent items that are to be used in delivery of healthcare services

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Land & Improvements

- Represent the historcal cost of land owned by the healthcare facility and the histocal coast of any improvements built on it