

Handout No. 1

On the statement of operations:

Revenue (net of contractual allowances and discounts)	\$	60,000
Provision for bad debts	\$	9,600
Net revenue less provision for bad debts	\$	50,400

Handout No. 2

Entity A recognizes revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, Entity A recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of Entity A's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Entity A records a significant provision for bad debts related to uninsured patients in the period the services are provided. Revenue, net of contractual allowances and discounts, (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	Third-Party Payors	Self-Pay	Total All Payors
Revenue (net of contractual allowances and discounts)	\$ 50,000	\$ 10,000	\$ 60,000

Handout No. 3

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Entity A analyzes its past history and identifies trends for each of its major payor sources to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Entity A analyzes contractually due amounts and provides an allowance for doubtful accounts and provision for bad debts if necessary (for example, for expected uncollectible deductibles and co-payments on accounts where the third-party has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due where third-party coverage already has paid the remainder of the bill), Entity A records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. A tabular reconciliation of the activity in the allowance for doubtful accounts is as follows:

	Third-Party Payors	Self-Pay	Total All Payors
Balance at the beginning of the period	\$ 1,000	\$ 8,000	\$ 9,000
Provision for bad debts	100	9,500	9,600
Write-offs, net of recoveries	(500)	(7,000)	(7,500)
Balance at the end of the period	\$ 600	\$ 10,500	\$ 11,100