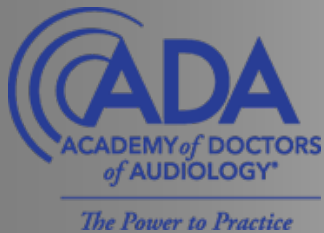


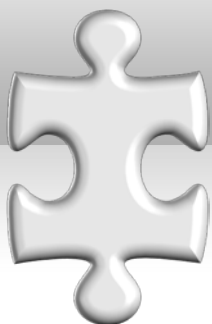
Fiscal Management: Part I



Robert M. Traynor, Ed.D., MBA

Business Series

Overview



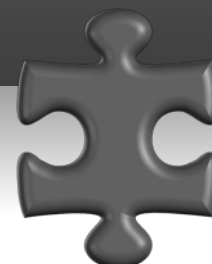
**General
Accounting**



Expenses



**Balance
Sheet**



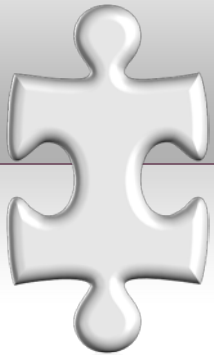
**Income
Statement**



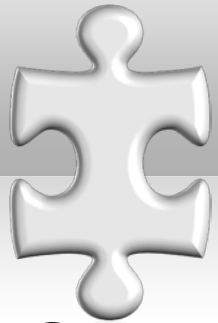
**Cash Flow
Statement**

Fiscal Management Part I

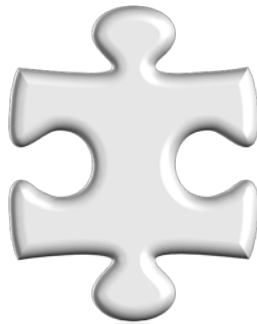
General Accounting



Why DO I Care?



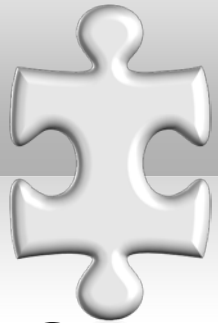
General Accounting



- Audiologists need to know the basics
- Demonstrates the health of the practice
- Demonstrates the profitability of locations, procedures and employees
- Communication with Accounting Professionals



Economic Exchanges in Audiology Practice



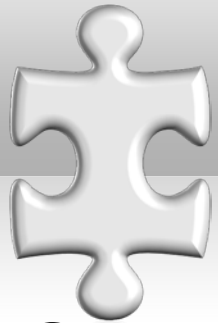
General Accounting



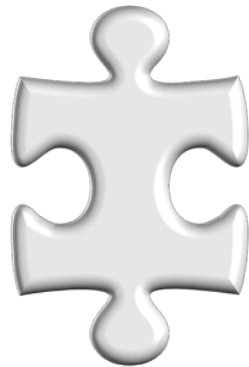
- Records how the practice interacts with the real world.
- Correct accounting ensures recording of all business transactions for all types of economic exchanges.



Accounting

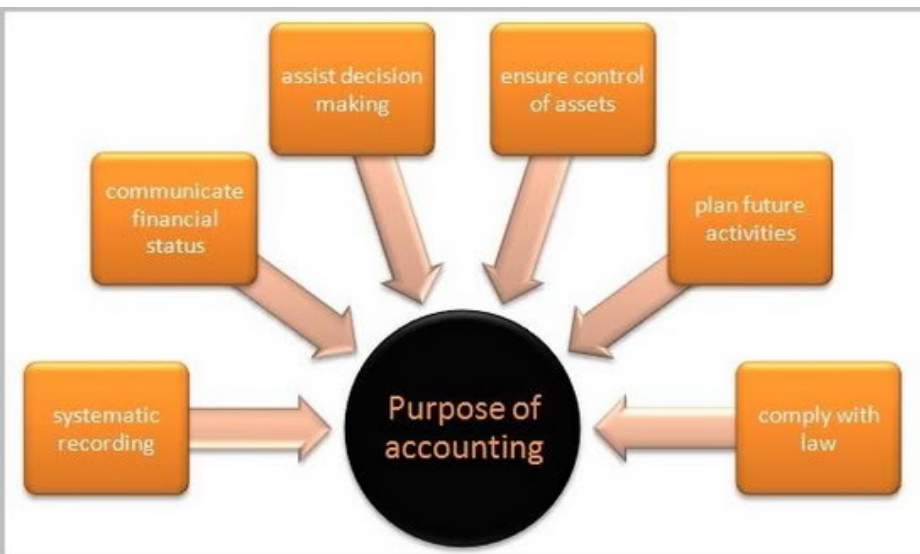


General Accounting

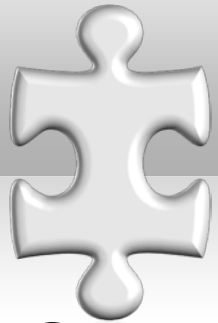


Purpose of Accounting in an Audiology Practice

- Provides information for sound economic decision making.
- Prepares reports that provide information as to the practice's performance.
 - Investors
 - Creditors
 - Tax authorities



Accounting Methods



**General
Accounting**

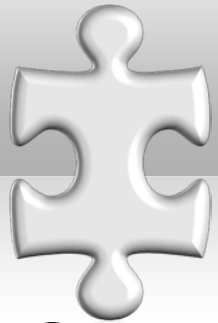


**Generally Accepted
Accounting Principles
(GAAP)**

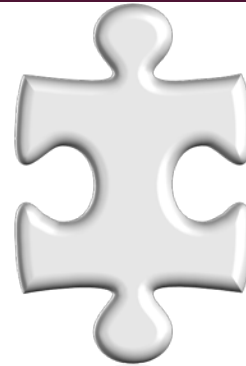
- Universal method of valuing profit and measuring assets and liabilities.
- Governed by a policy board and offers slight variations from one country to another.
- Describes how transactions for costs, profit, inventory, sales, and other business transactions will be recorded.
- Allows for comparison of one business to another since all use the same technique.



Accountants



General Accounting

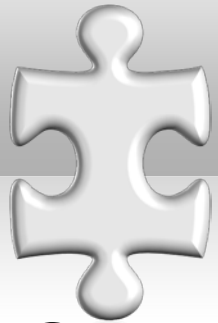


An **accountant** is a practitioner of accounting. The measurement, disclosure or provision of assurance about financial information that assists managers, investors, tax authorities and others make decisions about allocating resources.

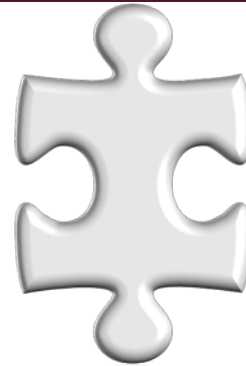
- Sets up and maintains the books
- Accounts for all business transactions
- Prepares tax returns
- Offers advice on profitability of personnel, procedures, locations, etc.



Accountants



General Accounting

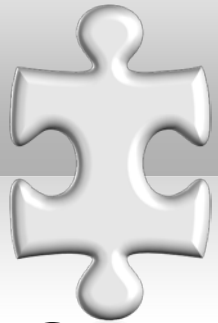


General Duties of Accountants in an Audiology Practice

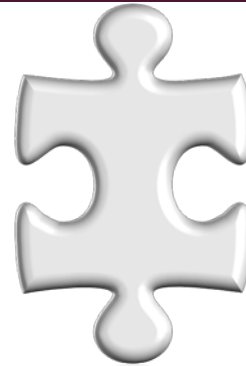
- Cash into the practice (**Receivables**)
- Cash payments from the practice (**Payables**)
- Monitors inventory and purchases
- Decides accounting methods: **Cash or Accrual**
- Payroll preparation
- Assists in monitoring the bookkeeper



Accounting Methods

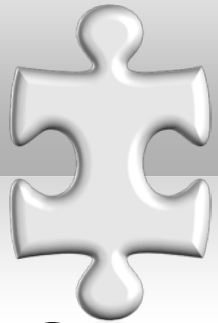


General Accounting

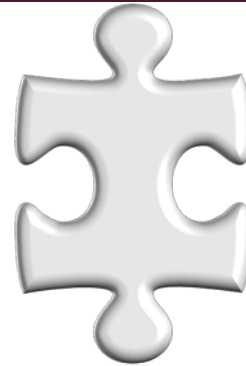


- Method chosen by the accountant.
- Chosen based upon the specifics of the practice and the practice venue.
- Once chosen needs to stay in that method unless major changes in the business.

Accounting Methods



**General
Accounting**

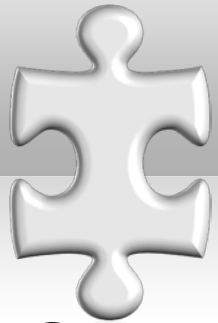


**Cash Accounting
Method**

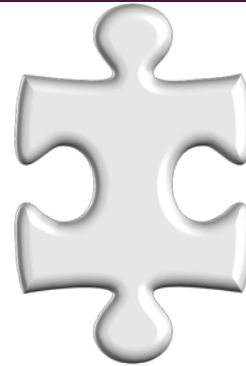
**Cash Basis
Accounting**

- Records the flow of cash in and out.
- Income is recorded and expenses are paid when they occur.
- Taxes are paid based upon actual revenue in hand.
- Used for small businesses with minimal inventory.
- Less complex business structures.
- Only one or two partners /owners

Accounting Methods



General Accounting



Accrual Accounting Method



- Records income and expenses when the transaction occurs even if no money changes hands.
- Expenses are deducted when the practice is billed, not when they are paid.
- Taxes may have to be paid on income not yet received.
- Used for more complex business structures with numerous owners/stockholders

Expenses



Expenses



Business Costs



In common usage, an **expense** or **expenditure** is an outflow of money to another person or group to pay for an item or service, or for a category of costs.

- Operating Costs
- Overhead Costs
- Equipment Operating Costs



Operating Costs



Business Costs

- Fixed Costs
- Variable Costs



For a commercial enterprise, operating costs fall into two broad categories:



Fixed Costs



Business Costs



Fixed Costs are the same whether the practice is closed or running at 100% capacity. They include items that have to be paid regardless of the state of the business.

- Rent/lease payments
- Utilities
- Bank Loans



Variable Costs



Business Costs

- Product Costs
- Commissions
- Warranty Support
- Materials Costs (impression material, electrodes, tips, etc)
- Credit Card processing
- Mailing



Variable Costs are expenses that increase depending on the amount of business Conducted.



Avoidable Costs



Business Costs



Avoidable cost refers to variable costs that can be avoided, avoidable costs are often viewed as negative costs, they may be necessary to achieve certain goals or thresholds. These costs expense that will not be incurred if a particular activity is not performed.

- Discontinue procedures
- Discontinue products
- Change banking costs
- Reduce interest rates
- Lease less expensive cars, equipment

**Avoidable Costs in
U.S. Healthcare**

Sunk Costs



Business Costs

- Equipment
- Computers
- New Sign for the office
- New Location Expenses



Sunk costs are unrecoverable past expenditures. These should not normally be taken into account when determining whether to continue a project or abandon it, because they cannot be recovered either way.



Opportunity Costs



Business Costs



Income that is given up when another course of action is chosen.

- Choose not to provide VNG
- Choose not to evaluate children
- Choose not to conduct ABR
- Choose not to conduct OAEs



Opportunity Costs



**Business
Costs**

If you would have done 7 per month @ \$300 each you forfeit \$2100 mo or \$25,200 yr.

You do not have to purchase the equipment (\$23,000) or provide the personnel to provide the service.



Example

If you choose NOT to conduct VNG,
What does that cost?



Opportunity Costs



**Business
Costs**



Example

7 VNGs @ \$300 ea= \$2100/mo

Opportunity for Income

Expenses if VNG is conducted

\$500/mo + 850/mo =\$1350/mo

**If you would have done 7 per month @ \$300 each
you forfeit the income \$2100 mo - \$1350 mo
Expenses = \$750 mo or 9,000 yr. NOT \$25,200**

Managerial Accounting



The process of identifying, measuring, analyzing, interpreting, and communicating information for the pursuit of an organization's goals.

Financial Accounting

The process of recording, summarizing and reporting the myriad of transactions from a business, so as to provide an accurate picture of its financial position and performance.

Difference between Managerial and Financial Accounting



The key difference between financial and managerial accounting is that financial accounting is aimed at providing information to parties outside the organization, whereas managerial accounting information is aimed at helping managers within the organization make decisions.

Basics of Financial Statements



**Balance
Sheet**



**Income
Statement**



**Cash Flow
Statement**

- Statements prepared to reflect Solvency, Profit, Financial Health
- The basis for calculation of important business ratios for decision making essential in making informed decisions that reflect the direction of the practice.

Balance Sheet



What IS a Balance Sheet



Balance Sheets

Three balance sheet segments give managers and investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

- Solvency of the Practice
- A snapshot of the business's financial condition a particular point in time.
- Usually presented monthly, quarterly or yearly.



Balance Sheet

AUDIOLOGY ASSOCIATES, Inc.

Balance Sheet
December 31, 2009

Assets

Liabilities & Owners' Equity

Balance Sheets

- Presents
 - Assets
 - Liabilities
 - Owners or Stockholders Equity
- Assets – left side
- Liabilities & Owners Equity – right side

Sample Balance Sheet
Adapted from Marshall (2004)

Balance Sheet



Balance Sheets

- Presents
 - Assets
 - Liabilities
 - Owners or Stockholders Equity
- Assets – left side
- Liabilities & Owners Equity – right side

AUDIOLOGY ASSOCIATES, Inc.

Balance Sheet
December 31, 2009

Assets

Anything that the practice owns

Liabilities & Owners' Equity

The claims of creditors against the assets of the business

What the Owner has put into the business

Sample Balance Sheet
Adapted from Marshall (2004)

Balance Sheet

AUDIOLOGY ASSOCIATES, Inc.

Balance Sheet
December 31, 2009

Assets

Anything that the practice owns

Liabilities & Owners' Equity

The claims of creditors against the assets of the business

What the Owner has put into the business



**Balance
Sheets**

Assets

Liabilities

Owners Equity

Sample Balance Sheet
Adapted from Marshall (2004)

Balance Sheet

AUDIOLOGY ASSOCIATES, Inc.

Balance Sheet
December 31, 2009

Assets

Current assets:

Cash34,000.

Accounts Receivable.....80,000.

Merchandise Inventory.....170,000.

Total Current Assets.....284,000.

Plant and equipment:

Equipment..... 40,000.

Less Accumulated
depreciation.....(4,000.)

Total assets.....320,000.

Liabilities & Owners' Equity

Current liabilities:

Short Term Debt.....20,000.

Accounts Payable..... 35,000.

Other Accrued Liabilities.....12,000.

Total current liabilities..... 67,000.

Long term debt.....50,000.

Total Liabilities..... 117,000.

Owners' Equity.....203,000.

Total liabilities and
owners' equity.....320,000.

Sample Balance Sheet
Adapted from Marshall (2004)



Balance Sheets

Assets

- Current Assets
 - Cash
 - Accounts Receivable
 - Merchandise Inventory
 - Total. Current Assets

- Plant and Equipment
 - Equipment
 - Accumulated Depreciation

- Total Assets

Balance Sheet

AUDIOLOGY ASSOCIATES, Inc.

Balance Sheet
December 31, 2009

Assets

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Balance Sheets

Liabilities

- Current Liabilities
 - Short Term Debt
 - Accounts Payable
 - Other Accrued Liab.
 - Total Current Liabilities
- Long Term Debt
 - Total Liabilities
- Owners Equity
- Total Liabilities & Owners Equity

Sample Balance Sheet
Adapted from Marshall (2004)

Balance Sheet

Why its called a “BALANCE SHEET”



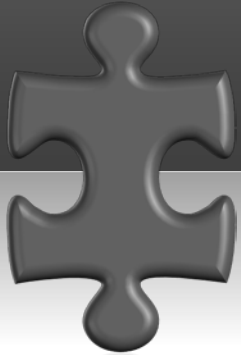
Balance Sheets

Assets	Liabilities & Owners' Equity
Current assets:	Current liabilities:
Cash34,000.	Short Term Debt.....20,000.
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Less Accumulated depreciation..... (4,000.)	Owners' Equity..... <u>203,000.</u>
Total assets.....<u><u>320,000.</u></u>	Total liabilities and owners' equity..... <u><u>320,000.</u></u>

Sample Balance Sheet
Adapted from Marshall (2004)

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

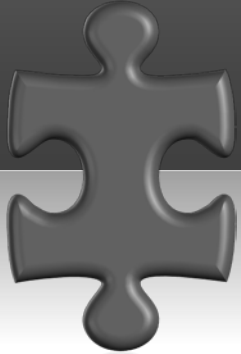
Income Statements



**Income
Statement**



Income Statements



Income Statement



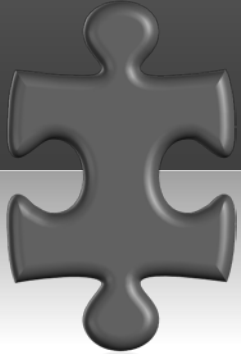
A financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.

- What generates income
- What generates expenses
- What generates profit

Sometimes called a Profit-Loss Statement



Income Statements



Income Statement

- Net Sales
 - Sales Less Returns and Discounts

- Cost of Goods Sold
 - Supplier costs for products
 - Earmolds
 - ALDs etc

- Net Profit

- Selling and Gen. Administrative expenses

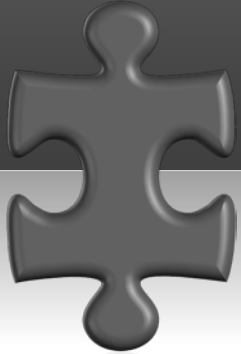
AUDIOLOGY ASSOCIATES, INC.

Income Statement
Year the Ended December 31, 2009

Net sales.....	1,200,000.
Costs of goods sold.....	<u>850,000.</u>
Net profit.....	350,000.
Selling, general and administrative expenses.....	<u>311,000.</u>
Income from operations (EBIT).....	39,000.
Interest expense.....	<u>9,000.</u>
Income before taxes (EBT).....	30,000.
Income taxes.....	<u>12,000.</u>
Net Income.....	<u><u>18,000.</u></u>

Figure 2 Sample Income Statement
Adapted from Marshall (2004)

Income Statements



Income Statement

- Income from Operations (EBIT)
- Interest Expense
- Income before Taxes (EBT)
- Income Taxes
- Net Income

AUDIOLOGY ASSOCIATES, INC.

Income Statement
Year the Ended December 31, 2009

Net sales.....	1,200,000.
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Net Income.....	<u><u>18,000.</u></u>

Figure 2 Sample Income Statement
Adapted from Marshall (2004)

Cash Flow Statements



↑ CASH FLOW

↓ CASH FLOW



Cash Flow Statements



Cash Flow Statement



A **cash flow statement**, also known as ***statement of cash flows***, shows how changes in the balance sheet accounts and income effect cash and cash equivalents. It is broken down into Operations, Investing and Financing.



- Concerned with the flow of cash in and out of the business
- Captures current operating results and changes in the balance sheet.
- Tells the short term viability of a company

Cash Flow Statements



Cash Flow Statement

- Cash Flow from Operations
- Cash Flow from Investment
- Cash Flow from Financing

AUDIOLOGY ASSOCIATES, INC.

Statement of Cash Flows
Year the Ended December 31, 2009

Cash Flows from Operating

Net Income	\$ 18,000.
Add (Deduct) items not affecting cash:	
Depreciation expense.....	4,000.
Increase in Accounts Receivable.....	(80,000.)
Increase in Merchandise.....	(170,000.)
Increase in current liabilities.....	<u>67,000.</u>
Net Cash Used by Operating Activities.....	\$ (161,000.)

Cash Flows from Investment

Cash Paid.....	\$ (40,000.)
----------------	--------------

Cash Flows from Financing

Cash Received from issues of long-term debt...\$	50,000.
Cash Received from sale of common stock.....	<u>190,000.</u>
Net cash provided by financing.....	<u>\$ 240,000.</u>
Net Cash Increase	\$ 320,000.

Sample Statement of Cash Flows

Adapted from Marshall (2004)

Cash Flow Statements

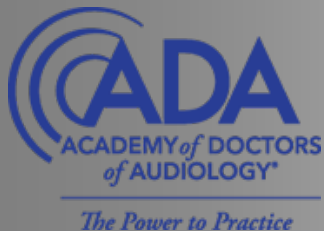


Cash Flow Statement



- Looks at where the generated cash actually goes
- Allows the manager to make adjustments in practice operations

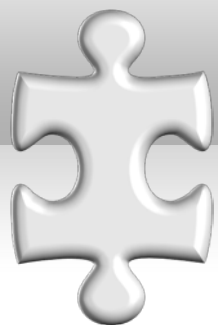
Fiscal Management: Part II



Robert M. Traynor, Ed.D., MBA

Business Series

Overview



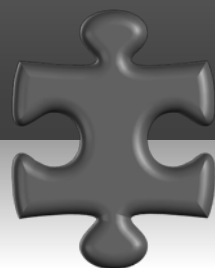
**Financial
Accounting**



**Liquidity
Ratios**



**Activity
or
Turnover
Ratios**



**Debt/Leverage
Ratios**



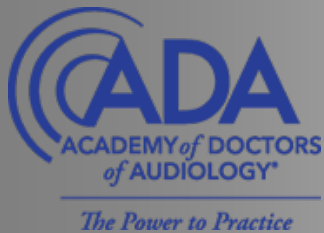
**Profitability
Ratios**



**Tracking
the Practice**

**Fiscal Management Part II
June 30, 2015**

Fiscal Management: Part I



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Business Series