

Computing a Gross and Net Collection Percentage for a Medical Practice

Do you know how to accurately compute your practice collection percentage for your accounts receivables? Follow the simple 3-step formula shown below:

1. Compute net revenue by finding your gross billings for a period of time, i.e., monthly, quarterly or annually from the gross billing number; subtract contractual adjustments and mandatory write-offs (PPO, HMO, Medicare, Medicaid, Unallowable Charges). The resulting number is your Net Charges. Example:

GROSS BILLINGS	\$100,000.00
ADJUSTMENTS/WRITE-OFFS	<u>-20,000.00</u>
NET CHARGES	\$ 80,000.00

2. Next, compute your **net collections**. Find your gross collections for the period and from gross collections subtract refunds and return checks. This resulting number is your net collections. Find your gross collections for the period and from gross period collections subtract refunds and return checks. This resulting number is your net collections. Example:

GROSS CASH RECEIPTS	\$75,000.00
LESS: REFUNDS/RETURN CHECKS	<u>-2,000.00</u>
NET COLLECTIONS	\$73,000.00

3. To determine your practice net collection percentage (%), divide net collections by net charges. Using the example show above the resulting practice collection percentage would be 91.25%. Net collections of \$73,000 divided by net charges of \$80,000 = 91.25%.

Important!!! Should your collection percentage be less than 92%, call Rea & Associates - perhaps we can help .

In order to determine how much money you are leaving on the table or letting slip through the cracks, take the difference between your actual collection percentage and that of 92% and multiply the resulting difference against your net revenue number.

Example: Using the above set of numbers, let's say your net collections amounted to only 80% of your net revenues. Assuming a desired 95% collection percentage, this represents a 15% difference or shortfall. Fifteen percent (15%) of net charges is \$12,000.00. (\$80,000 x 15%). If this represented one week's activity for your practice, you would be suffering a shortfall in collections of approximately \$52,000 per month or approximately \$624,000 annually.

Rea & Associates can show you how to improve your collections and not leave money on the table.