

Guide for Using Practice Analysis Ratios

By reviewing the financial reports of a medical practice (Balance Sheet & Income Statement) plus other productivity reports (prepared manually or through computer), the following analyses can be made.

Gross Collection Ratio:
$$\frac{\text{Total Collections Fee for Service}}{\text{Total Gross Charges (billings)}}$$

Measures what percent of all charges for services were collected.

Net Collection Ratio:
$$\frac{\text{Total Payments (Collections)}}{\text{Total Net Charges (Charges minus adjustments)}}$$

A percentage closest to 100 indicates good cash flow.

Accounts Receivable Ratio:
$$\frac{\text{Total Accounts Receivable}}{\text{Average Monthly Adjusted Charges}}$$

Expense Ratio:
$$\frac{\text{Total Non-Physician Expenses}}{\text{Total Collections (Receipts)}}$$

A lower figure indicates good expense control.

Cost Per Patient Visit:
$$\frac{\text{Total Operating Expenses}}{\text{Office Visits}}$$

Measures the cost to see the average patient.

Charge Per Visit:
$$\frac{\text{Total Charges for Office Visits}}{\text{Office Visits}}$$

This measures the average charge generated by an average office visit. A higher figure indicates adequate charges are being made to produce practice revenue.

Collections Per Patient Office Visit:
$$\frac{\text{Total Collections}}{\text{Office Visits}}$$

This measures average income collected per patient visit.

Adjustments Percentage:
$$\frac{\text{Total Adjustments}}{\text{Total Fee for Service Charges}}$$

This measures the percentage of what a practice bills which is not collectible. A lower figure is better.

Total Collections Per FTE Physician: $\frac{\text{Total Collections}}{\text{Total FTE Physicians in Practice}}$

Shows the average amount of actual revenue collected from all sources per full time physician.

Expenses to Charges Ratio: $\frac{\text{Total Operating Expenses}}{\text{Total Charges}}$

This measures productivity in terms of what it costs to produce the fees charged by the practice.

Net Income as Percentage of Charges: $\frac{\text{Income minus Expenses}}{\text{Charges}}$

This measures what percentage of the practice charges generated are remaining for the physician.

Managed Care Income Percentage: $\frac{\text{Managed Care Income}}{\text{Total Practice Collections}}$

This measures the percentage of the practice that is prepaid contract income (Capitation, HMO, PPO, IPA, co-payments collected on plans, etc.) Shows how practice is dependent upon managed care participation.

Managed Care Encounters Per Member: $\frac{\text{Total Visits of Managed Care Plan Patients}}{\text{Average Number of Members Per Month}}$

Current Assets to Liabilities Ratio: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Measures how cash coming into the practice is covering current cash needs. A higher number is good.

Debt to Worth Ratio: $\frac{\text{Total Liabilities}}{\text{Total Equity}}$

Measures "outside" capital vs. owners investment safety or risk in the practice. A lower number is good.

Return on Equity: $\frac{\text{Net Profit}}{\text{Total Equity}}$

Measures the return to owners as result of operations. A higher figure is good.

Return on Investment: $\frac{\text{Net Profit}}{\text{Total Assets}}$

Measures the efficiency of use of all funds invested in the practice. A higher figure is good.

Profit Margin:
$$\frac{\text{Income-Expenses}}{\text{Income}}$$

Measures revenue volume versus practice expenses. A higher figure is good.

Over the Counter Collections Percentage:
$$\frac{\text{Over Counter Collections}}{\text{Total Collections}}$$

Measures the percentage of practice receipts collected at the time of service (cash, check, credit card).

Procedure Revenue Ratio:
$$\frac{\text{Total Revenue}}{\text{Total Procedures}}$$

Measures the average revenue generated per procedure.

Cost Ratio:
$$\frac{\text{Total Expenses}}{\text{Total Procedures}}$$

This shows the average cost of performing a procedure in the office.

Publications related to this topic on website www.practicesupport.com include:

- [Financial Management Policies for Physician Office](#)
- [Manager's Guidebook for Monitoring a Profitable Practice](#)
- [Practice Management Assessment Guide](#)
- [Practice Management STATS Quick Reference](#)
- [Benchmarking Success – The Essential Guide for Group Practices](#)