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:**  
\[
\text{Total Collections Fee for Service} \\  \text{Total Gross Charges (billings)}
\]  
Measures what percent of all charges for services were collected.

**Net Collection Ratio:**  
\[
\text{Total Payments (Collections)} \\  \text{Total Net Charges (Charges minus adjustments)}
\]  
A percentage closest to 100 indicates good cash flow.

**Accounts Receivable Ratio:**  
\[
\text{Total Accounts Receivable} \\  \text{Average Monthly Adjusted Charges}
\]  

**Expense Ratio:**  
\[
\text{Total Non-Physician Expenses} \\  \text{Total Collections (Receipts)}
\]  
A lower figure indicates good expense control.

**Cost Per Patient Visit:**  
\[
\text{Total Operating Expenses} \\  \text{Office Visits}
\]  
Measures the cost to see the average patient.

**Charge Per Visit:**  
\[
\text{Total Charges for Office Visits} \\  \text{Office Visits}
\]  
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:**  
\[
\text{Total Collections} \\  \text{Office Visits}
\]  
This measures average income collected per patient visit.

**Adjustments Percentage:**  
\[
\text{Total Adjustments} \\  \text{Total Fee for Service Charges}
\]  
This measures the percentage of what a practice bills which is not collectible. A lower figure is better.
| **Total Collections Per FTE Physician:** | Total Collections  
|                                            | Total FTE Physicians in Practice |
| Shows the average amount of actual revenue collected from all sources per full time physician. |

| **Expenses to Charges Ratio:** | Total Operating Expenses  
|                                | 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:** | Income minus Expenses  
|                                        | Charges |
| This measures what percentage of the practice charges generated are remaining for the physician. |

| **Managed Care Income Percentage:** | Managed Care Income  
|                                     | 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:** | Total Visits of Managed Care Plan Patients  
|                                         | Average Number of Members Per Month |

| **Current Assets to Liabilities Ratio:** | Current Assets  
|                                        | Current Liabilities |
| Measures how cash coming into the practice is covering current cash needs. A higher number is good. |

| **Debt to Worth Ratio:** | Total Liabilities  
|                         | Total Equity |
| Measures "outside" capital vs. owners investment safety or risk in the practice. A lower number is good. |

| **Return on Equity:** | Net Profit  
|                       | Total Equity |
| Measures the return to owners as result of operations. A higher figure is good. |

| **Return on Investment:** | Net Profit  
|                          | Total Assets |
Measures the efficiency of use of all funds invested in the practice. A higher figure is good.

**Profit Margin:**

\[
\text{Income-Expenses} \\
\text{Income}
\]

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](http://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