

Valuation of Accounts Receivable

The value of accounts receivable is generally established based on the age and activity of the account. There are various formulas that can be applied which will give an estimate. However, without analyzing each account individually, the possibility of collection can vary a great deal.

The most precise method would entail an extensive review of payer categories, current claim status of accounts and a review of adjustments involved. This group does not wish to provide this breakdown, and rarely is this performed as there is no real conclusive way to know what is actually going to be collected from all outstanding charges.

The following are medical practice industry methods for estimating the value of accounts receivable.

Method 1

This method is based on specific age categories with expected collection percentages plus deductions for unrecognized adjustments to Medicare and Medicaid and administration costs for collection. Example with figures:

		<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>121-over</u>
Total charges		\$1,059,243	\$225,070	\$66,856	\$81,436	\$291,890
Minus 20% of the <u>Medicare and Medicaid charges</u>		-129,227	-27,458	-8,156	-9,935	-35,610
		\$930,016	\$197,612	\$58,700	\$71,501	\$256,280
Collection probability		<u>x 90%</u>	<u>x 80%</u>	<u>x 70%</u>	<u>x 50%</u>	<u>x 30%</u>
		\$837,014	\$158,089	\$41,090	\$35,750	\$76,884
Minus 10% administration costs for collecting		<u>-83,701</u>	<u>-15,808</u>	<u>-4,109</u>	<u>-3,575</u>	<u>-7,688</u>
	Subtotals	<u>\$753,331</u>	<u>\$142,281</u>	<u>\$36,981</u>	<u>\$32,175</u>	<u>\$69,196</u>

Total of subtotals \$1,033,964

Estimated value of A/R **\$1,033,964**

Method 2

This method gives value to accounts that are still quite active within 120 days that have a high collection probability and no value for accounts over 120 days. Example with figures:

Accounts receivable	0-120 days	\$1,432,605
Medicare & Medicaid charges (61%)		\$873,889
Minus 20% for unrecognized adjustments		<u>-174,777</u>
	Subtotal	1,257,828
Minus 10% administrative costs for collections		<u>-125,782</u>
		\$1,132,046
	Collection probability	<u>x 90%</u>
	Estimated value of A/R	<u>\$1,018,841</u>

Method 3

This method is more arbitrary but also valid with a practice which shows evidence that its total accounts receivable are truly active accounts with a high % of insurance receivables and payments on accounts. A straight 50% factor can be applied to the total. Example with figures:

Total A/R	\$1,724,495
x 50%	<u>862,247</u>
Estimated value A/R	<u>\$862,248</u>

Method 4

This method includes establishing a fair value to A/R by assigning a weight to each of the 3 methods above. The weight assigned is based on billing and collecting procedures; information made available, and the history of A/R management for the practice. Example with figures:

<u>Method</u>	<u>Amount</u>	<u>Weight</u>	<u>Weighted value</u>
1	\$1,033,964	x .50	\$516,982
2	\$1,018,841	x .35	\$356,594
3	\$ 862,248	x .15	\$129,337
Sum of the weighted values:			\$1,002,913

The total estimated value of A/R is **\$1,002,913.**

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

[Medical Practice Valuation Appraisal Guidelines & Workbook](#)

[Time to Sell? Guide to Selling a Physician Practice](#)

[Guide for Practice Mergers](#)

