

Revenue Recognition, Including Implicit Price Concession and Bad Debt Considerations, for Healthcare Organizations: Accounting Issues and Trends Frequently Asked Questions

Why was this Issue Analysis developed?

In 2014, the Financial Accounting Standards Board (FASB) published an update that eliminates industry-specific revenue recognition guidance and replaces it with a single principles-based revenue recognition standard that applies to most industries, with limited exceptions. All the revenue recognition guidance developed specifically for the healthcare industry over a period of many years is being replaced by this one standard. Calendar year 2018 marked the first implementation period for this FASB standard, which is entitled Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This HFMA Issue Analysis was developed by HFMA's Principles & Practices Board to provide some clarity to the healthcare industry on certain accounting and reporting issues resulting from Topic 606.

What is the new model in FASB's revenue recognition standard, and how does this Issue Analysis clarify it?

The new FASB model consists of five steps:

- (1) Identify the contract with the customer
- (2) Identify the performance obligations in the contract
- (3) Determine the transaction price
- (4) Allocate the transaction price to the performance obligations
- (5) Recognize revenue when (or as) the entity satisfies a performance obligation

HFMA's Issue Analysis goes into detail on how each of these steps applies to recognition of net patient service revenue by healthcare providers.

What are some examples of changes healthcare providers may need to make as a result of the new FASB revenue recognition standard?

As one example, prior to Topic 606, a hospital might have recorded a provision for doubtful accounts for a portion of the self-pay balance owed by a patient with commercial insurance. Under Topic 606, the amount previously displayed as a provision for doubtful accounts would not be reported separately in the hospital's financial statements; instead, it would be treated as an implicit price concession, and included as a component of net patient service revenue.

What are the implications of Topic 606 for healthcare providers' accounting systems?

Healthcare providers should determine whether accounting system modifications are necessary. For example, some providers are adding new general ledger accounts so that implicit price concessions will be accounted for as revenue deductions by payer category rather than in a single general ledger line. Similar changes may be made for other deductions. Additionally, healthcare providers may need to make modifications to their systems to capture the desired level of disaggregation information associated with portfolio categories utilized to estimate implicit price concessions as a practical expedient.

How will Topic 606 affect key performance indicators?

While the "bottom line" for many providers may not change as a result of Topic 606, changes in classification of certain items could have a significant impact on key performance indicators (KPIs) used by management. Healthcare entities will need to ensure that any KPIs using revenue as an input either are not impacted by the accounting change or are appropriately considered in establishing targets.

How significant are the changes required by Topic 606?

It varies. Many providers will need to develop extensive documentation, review contracts, and develop new disclosures and language in their financial statements. Others may experience a change in the timing of revenue recognition, and possibly some significant financial statement adjustments. For all healthcare entities, the new standard requires time and attention to revenue recognition practices, underlying contracts, and the development of appropriate required disclosures.

For more information, read the HFMA Principles and Practices Board Issue Analysis, [Revenue Recognition, Including Bad Debt Valuation, for Healthcare Organizations.](#)