

## CRI'S INVESTIGATIVE REPORT:

# How the New Revenue Recognition Standard Will Affect Healthcare Entities

### WHAT

Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, will replace current industry-specific guidance and will require all entities to use the following five-step process:



### WHEN

Beginning with fiscal years that start after December 15, 2018. (The standard requires retrospective application, so it must also be applied to the year before adoption.) Even though the standard isn't applicable until 2019, entities must also apply to 2018 upon adoption.



### WHY REV REC MATTERS

- ✓ One of the most pervasive accounting standards in a generation
- ✓ Drastically changes how healthcare organizations recognize, measure and report revenues
- ✓ Will impact timing, presentation, and potentially even the amount of revenues to be recognized
- ✓ Implementation will require significant time and resources



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## WHAT TO ASK

**Does the organization have a legally enforceable contract with the patient or customer?**

→ Consider emergency department visits or admissions, ambulance arrivals, nights and weekends, patients that refuse to sign required paperwork, etc.

**Is the patient committed to perform his or her obligations under the contract? Is it probable the organization will collect all of the consideration to which it is entitled?**

→ If the answer to either question is 'no,' then a contract does not exist, and revenue cannot be recognized.

**Does the contract include "variable consideration?"**

→ Acceptance of payment that is less than standard charges qualifies as variable consideration, so most healthcare contracts meet this test.

→ The organization must consider "all information that is reasonably available" in determining the transaction price before recognizing revenue.

**Does the contract have multiple deliverables – such as upfront charges for a multi-day stay, "global" prices for a service that also has components like inpatient stays, anesthesia, supplies, lab, etc...?**

→ If so, the organization must determine if revenue can be recognized all at once or over time as the deliverables are met.

**Does the organization file cost reports or otherwise retroactively settle claims with third-party payors?**

→ If so, multiple new considerations will be required that will likely impact revenue recognition (amount and timing).

## WHO CAN HELP?

CRI's dedicated healthcare team works with more than 2,000 healthcare providers each year. We can help you adopt this landmark accounting standard with:

- ✓ Evaluation of your specific circumstances to support your revenue recognition positions;
- ✓ Detailed analysis of historical collections, cost report positions and related reserves;
- ✓ Additional support as needed.

If your organization has yet to fully consider the impacts of this new standard, the time for action is now! **Contact us at [healthcare@CRlcpa.com](mailto:healthcare@CRlcpa.com) to discuss how CRI can help you prepare for and adopt the new revenue recognition standard.**



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