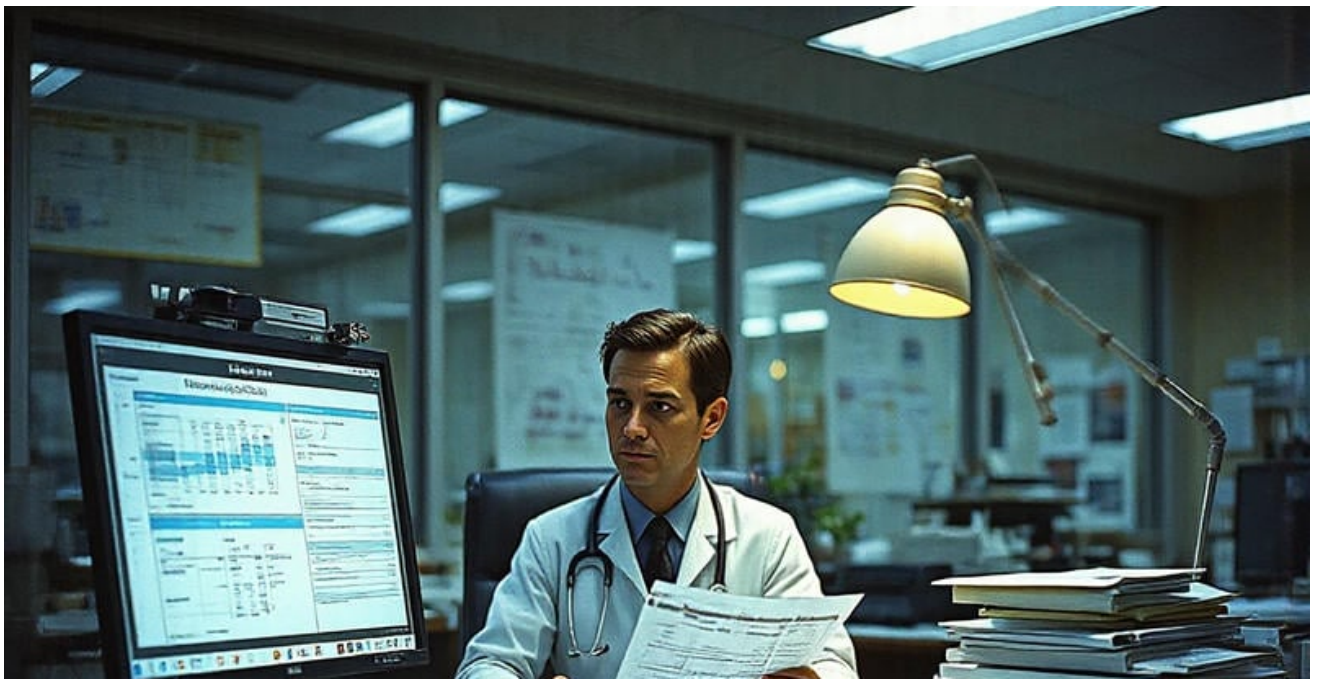


## Medical Staffing



- **Understanding Annual Updates to ICD 10 CM Codes**  
**Understanding Annual Updates to ICD 10 CM Codes Navigating CPT Code Changes for Surgical Procedures The Role of HCPCS Codes in Medical Billing Transitioning from ICD 9 to ICD 10 Challenges Specialty Specific Coding in Oncology Practices How to Avoid Errors in Evaluation and Management Coding Updates to Infectious Disease Coding Guidelines Best Practices for Using Modifiers in Medical Billing Impact of Coding Changes on Reimbursement Rates Training Resources for Mastering ICD 10 CM Coding for Chronic Conditions in Primary Care Future Trends in Medical Coding Systems**
- **Key Elements of HIPAA Compliance in Medical Billing**  
**Key Elements of HIPAA Compliance in Medical Billing Understanding Stark Law and Its Implications Avoiding Civil Monetary Penalties in Healthcare Lessons from False Claims Act Case Studies Managing Whistleblower Risks in Medical Practices Compliance Strategies for Medicaid Billing Ethical Considerations in Medical Coding Audits Documentation Requirements for Legal Protection How to Prepare for RAC Audits Successfully State Specific Compliance Challenges in Healthcare Global Standards for Healthcare Data Privacy Training Staff on Anti Fraud Regulations**
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In the intricate world of legal compliance, accurate documentation stands as a pillar of integrity and protection. Its significance cannot be overstated, serving as both a shield and a sword in the realm of legal affairs. To understand fully why meticulous documentation is vital, one must consider its role in safeguarding against potential disputes, ensuring regulatory adherence, and providing a factual basis for defense.

Medical staffing agencies focus on sourcing professionals with specific certifications and skills **medical staffing insurance** health care industry.

Firstly, accurate documentation acts as an evidentiary cornerstone in legal matters. In disputes or litigations, quality documentation provides a clear narrative that can substantiate claims or defend against accusations. For instance, in contractual agreements, detailed records of communications and transactions can clarify intentions and obligations for all parties involved. This transparency not only helps in resolving conflicts amicably but also minimizes the risk of protracted legal battles that could arise from misunderstandings or misrepresentations.

Moreover, businesses operate under numerous regulations that vary by industry and jurisdiction. Accurate record-keeping ensures that organizations remain compliant with these laws. Regulatory bodies often require businesses to maintain precise records to demonstrate their adherence to legal standards. Failure to do so can result in hefty fines, sanctions, or even business closure. Thus, maintaining thorough documentation is not just about fulfilling legal requirements; it's about protecting the organization's reputation and financial stability.

Furthermore, proper documentation serves as a preventive measure against fraud and misconduct. By keeping detailed records of transactions and processes, companies create an audit trail that deters fraudulent activities by increasing the likelihood of detection. When employees are aware that every action is recorded accurately and reviewed regularly, it fosters an environment of accountability and integrity.

The importance extends beyond mere compliance; it plays a critical role during audits or investigations conducted by external bodies. Comprehensive documentation allows for efficient retrieval of information necessary to respond promptly to inquiries or challenges posed by auditors or regulators. This readiness not only demonstrates compliance but also reinforces trust between the organization and regulatory authorities.

In conclusion, accurate documentation is indispensable for legal compliance because it provides clarity in contractual relationships, ensures adherence to regulatory requirements,

prevents fraudulent activities through accountability measures, and facilitates smooth interactions with auditing bodies. Organizations must prioritize meticulous record-keeping practices as an integral part of their operational strategies to safeguard themselves legally while fostering a culture grounded in transparency and trustworthiness. As such, accuracy in documentation should be seen not merely as an administrative task but as an essential component of strategic business management aimed at achieving long-term success amidst complex legal landscapes.

Medical documentation serves as a critical tool not only for patient care but also for legal protection. In the complex landscape of healthcare, where medical professionals are often under scrutiny, maintaining comprehensive and accurate documentation is essential. The key components of medical documentation for legal purposes can be viewed as pillars that uphold the integrity and credibility of healthcare practices.

First and foremost, accuracy is crucial. Any record must reflect the true nature of patient interactions, diagnoses, treatments, and outcomes. Accuracy ensures that the information presented can withstand legal examination. It involves thorough attention to detail in recording patient histories, treatment plans, medication prescriptions, and any changes in the patient's condition. Inaccurate or incomplete records can lead to misinterpretations that could compromise both patient safety and legal defensibility.

Timeliness is another vital component. Medical documentation should be completed promptly after each patient encounter to ensure that details are fresh in the mind of the healthcare provider. This practice reduces the risk of memory lapses or errors that might occur if there is a delay in documentation. Timely records demonstrate a commitment to professional standards and provide a chronological sequence of events that can be critical in legal proceedings.

Consistency across all forms of documentation is equally important. Consistency refers to maintaining uniformity in how information is recorded throughout different documents related to a particular patient's care. This includes using standard terminologies and formats which help in minimizing confusion or misinterpretation among different healthcare providers who may later review these records.

Another fundamental aspect is completeness. Comprehensive documentation encapsulates all relevant aspects of patient care including initial evaluations, diagnostic tests performed along with their results, treatment plans devised by clinicians, informed consent discussions with patients regarding potential risks or benefits associated with proposed interventions; follow-up

plans; discharge summaries; etc., ensuring nothing pertaining to patient care gets overlooked thereby strengthening its role as an effective communication tool amongst multidisciplinary teams involved while safeguarding against malpractice claims too!

Confidentiality also plays a pivotal role when discussing medical record-keeping practices from both ethical/legal standpoints safeguarding sensitive information adherent towards HIPAA guidelines ensures trust-building between patients/providers alike! Breaches might invite lawsuits hence utmost caution exercised here becomes imperative regardless medium used whether electronic/paper-based systems employed today within clinics/hospitals globally.

Lastly yet importantly legibility cannot go unmentioned! Whether handwritten notes still persist some places transitioning digital realm entirely ongoing process universally adopted eventually everywhere albeit until then readable entries remain paramount especially during court cases ensuring juries/judges comprehend content thoroughly thereby avoiding unnecessary disputes arising due misunderstanding caused illegible handwriting!

In conclusion well-maintained meticulous medical records prove invaluable asset defending practitioners amidst litigation scenarios offering solid proof delivered quality care expected societal norms thus fostering better relationships built transparency/accountability shared among stakeholders involved ultimately benefiting wider community served diligently day-in day-out!

## **Social Sites**



## Instagram Channel:

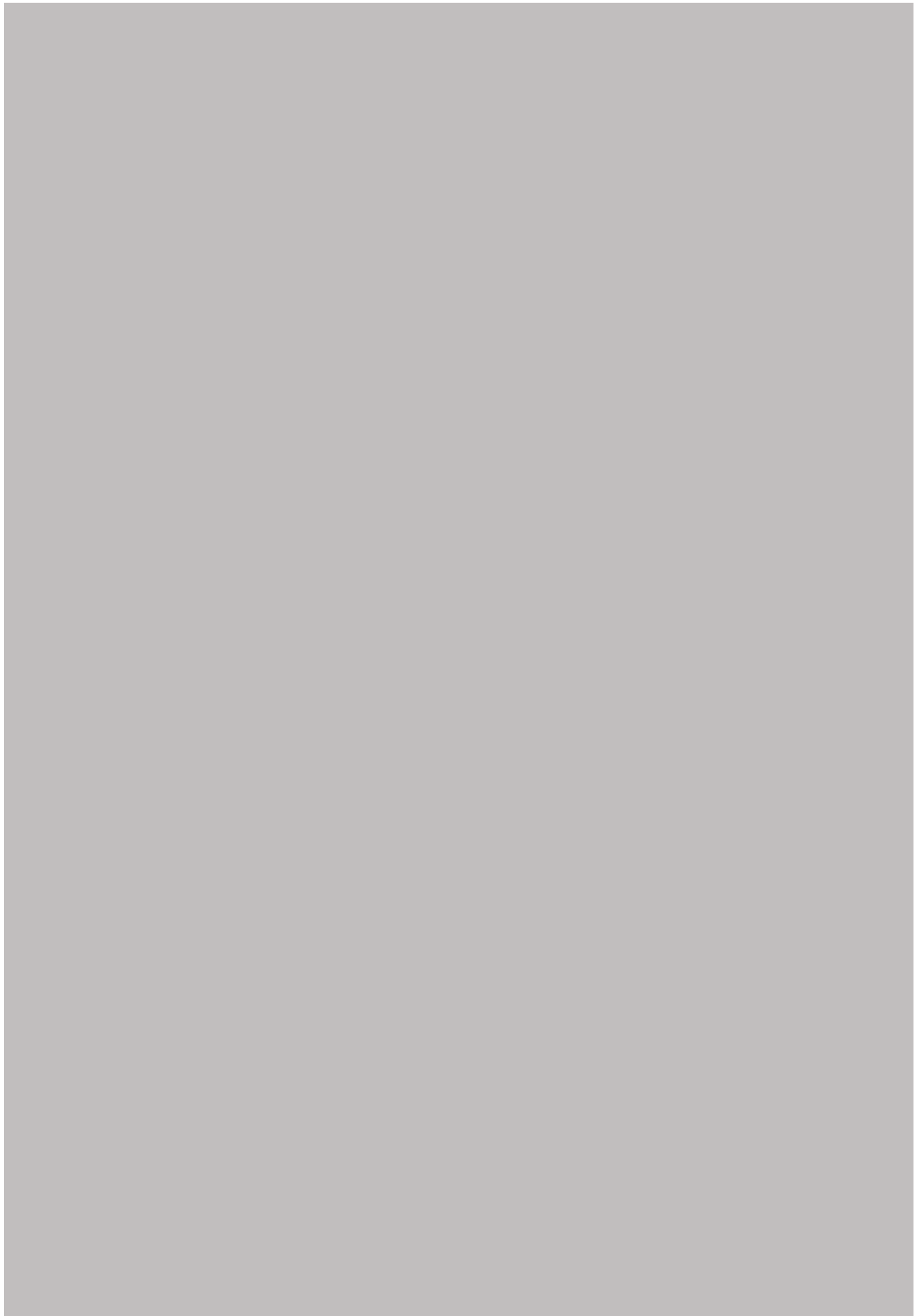
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**More about us on X:**





# Key Changes and Additions to the Latest ICD-10-CM Code Set

In the realm of legal protection, documentation serves as a cornerstone upon which rights and responsibilities are established, verified, and contested. However, despite its critical importance, common documentation errors frequently arise, carrying significant legal implications that can jeopardize the very protections such records are meant to provide.

One prevalent error is insufficient detail. Documents lacking comprehensive information fail to convey the full context of an agreement or event. This absence can lead to misunderstandings or misinterpretations that may be exploited in legal disputes. For instance, a contract missing specific terms regarding deadlines or deliverables might leave room for varied interpretations, thereby weakening its enforceability. In legal proceedings, ambiguity often benefits the party that did not draft the document, leading to outcomes unfavorable to those who assumed certain protections were in place.

Another frequent mistake is neglecting proper signatures and authorizations. Legal documents generally require signatures from all relevant parties to confirm mutual understanding and consent. Missing signatures can render documents void or unenforceable if challenged in court. Furthermore, failing to ensure that signatories have the proper authority—such as when an employee signs on behalf of a company without explicit permission—can invalidate agreements and expose organizations to liability.

Additionally, inaccuracies within documentation pose substantial risks. Errors such as incorrect names, dates, figures, or descriptions can significantly alter a document's meaning or intent. Such inaccuracies might be perceived as fraudulent representations if they benefit one party over another or result in unintended legal obligations. Even seemingly minor mistakes can escalate into major disputes requiring costly litigation to resolve.

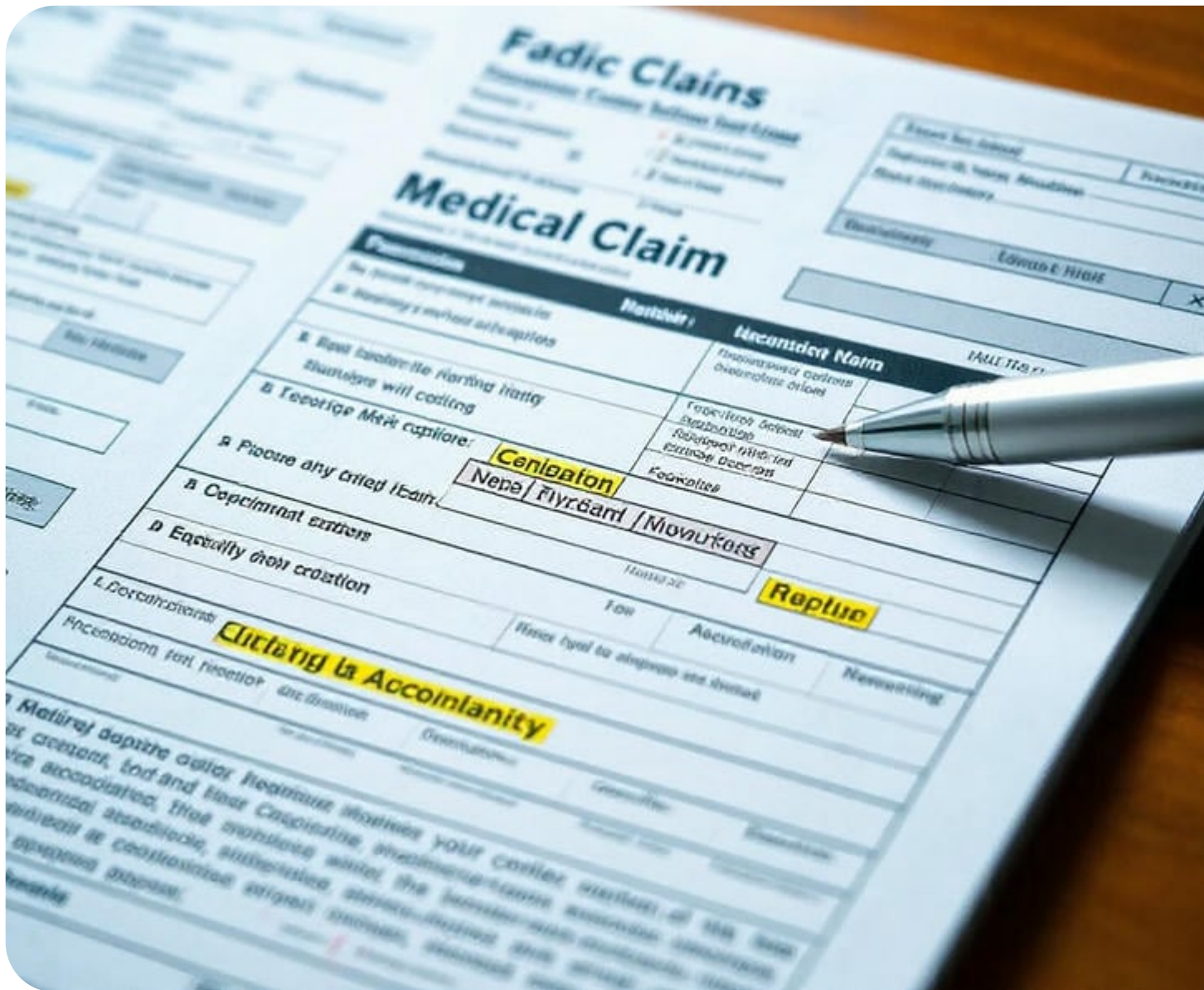
Failure to update documents regularly is another pitfall with potential legal repercussions. Legal environments evolve rapidly with changes in laws and regulations; thus, outdated

documents may no longer comply with current standards. Contracts should be revisited periodically to ensure they reflect any new legislative requirements or shifts in business relationships.

Lastly, improper storage and handling of documentation can lead to loss or damage of critical records necessary for legal protection. Without original copies or adequately preserved digital files, proving claims becomes arduous if not impossible during litigation processes.

To mitigate these risks and their corresponding legal implications, meticulous attention must be paid throughout the documentation process—from drafting through execution and beyond into storage routines. Engaging skilled professionals such as attorneys for guidance on precise language use and compliance with applicable laws is advisable alongside implementing robust systems for regular review and secure archiving practices.

In sum, while documentation errors are common due largely to human oversight amidst complex requirements—they need not translate into inevitable legal vulnerabilities if addressed proactively through diligent preparation and management strategies designed specifically around safeguarding one's rights within increasingly litigious landscapes today.



# Impact of Updates on Healthcare Providers and Coders

In today's fast-paced and litigious world, comprehensive and legally sound documentation is not just a best practice but a necessity. Whether in business, healthcare, or personal affairs, maintaining detailed and accurate records can safeguard against legal disputes and ensure compliance with regulations. To achieve this level of protection, one must adhere to certain best practices that revolve around clarity, accuracy, consistency, confidentiality, and accessibility.

First and foremost is the principle of clarity. Documentation should be written in clear, concise language that is easily understandable by all parties involved. Avoiding jargon and ambiguous phrases helps prevent misinterpretations that could lead to legal complications. Each document should have a specific purpose and audience in mind, ensuring that the information conveyed is relevant and straightforward.

Accuracy goes hand in hand with clarity. It's imperative to record information precisely as it occurs or as it is presented. This means double-checking figures, dates, times, names, and any other critical data for correctness before finalizing documents. Errors or discrepancies can undermine the credibility of documentation and may be exploited during legal proceedings.

Consistency across all documentation is another critical factor. Establishing standardized formats and procedures for creating documents can help maintain uniformity throughout an organization or project. Consistency not only aids in comprehension but also ensures that no essential elements are omitted from any document version.

Confidentiality must be rigorously maintained to protect sensitive information within documents from unauthorized access or breaches. Legal protection often hinges on an organization's ability to safeguard private data responsibly. Implementing strict access controls and regularly auditing who has access to what information are prudent steps toward preserving confidentiality.

Finally, accessibility ensures that documentation can be retrieved efficiently when needed for review or audit purposes. Properly organized filing systems—whether digital or physical—facilitate quick retrieval of documents while reducing the risk of loss or misplacement over time.

In conclusion, ensuring comprehensive and legally sound documentation requires adherence to these best practices: clarity to communicate effectively; accuracy to maintain integrity; consistency for uniformity; confidentiality for protection; and accessibility for ease of use. By

incorporating these principles into daily operations, individuals and organizations alike can bolster their legal defenses while fostering trust among stakeholders—a crucial component in today's complex societal landscape.

# Strategies for Staying Informed About Code Changes

Electronic Health Records (EHRs) have fundamentally transformed the landscape of healthcare documentation, offering a robust tool for legal protection in medical practice. As healthcare professionals navigate the complexities of patient care, EHRs serve as vital repositories of information that ensure accurate and comprehensive documentation. This aspect of EHRs is crucial, not only for continuity of care but also for safeguarding against potential legal challenges.

The primary role of EHRs in legal protection lies in their ability to provide detailed and time-stamped records that reflect the course of patient care. Such meticulous documentation can be pivotal in defending healthcare providers against allegations of malpractice or negligence. By maintaining a chronological account of patient interactions, diagnoses, treatments, and outcomes, EHRs offer an objective basis upon which legal defenses can be constructed. This level of detail helps establish a clear narrative that can demonstrate adherence to standard practices and highlight instances where clinical judgment was appropriately exercised.

Moreover, EHR systems are designed to enhance accuracy and minimize errors through features such as automated alerts for drug interactions, reminders for follow-up appointments, and standardized templates for clinical notes. These functionalities support clinicians in delivering high-quality care while simultaneously building a defensible record should any disputes arise. In situations where precise details are critical—such as during litigation or insurance audits—the reliability and accessibility of electronic records stand out as significant advantages over traditional paper-based methods.

In addition to protecting individual practitioners, EHRs play a broader role in institutional risk management. Healthcare facilities leverage these systems to track compliance with regulatory requirements and quality measures effectively. By systematically analyzing data aggregated from EHRs, institutions can identify patterns indicative of systemic issues or potential vulnerabilities within their operations. This proactive approach not only aids in mitigating risks but also demonstrates due diligence in maintaining high standards of patient safety—a valuable asset if legal scrutiny occurs.

However, it is essential to acknowledge the challenges associated with EHR use in legal contexts. Issues related to data security and patient privacy must be carefully managed to prevent breaches that could compromise both the integrity of records and trust between patients and providers. Furthermore, ensuring all staff members are adequately trained in using these systems is crucial; improper use or incomplete documentation could weaken the protective buffer that EHRs provide.

In conclusion, Electronic Health Records serve an indispensable role in fortifying legal protection within healthcare settings by facilitating precise documentation aligned with best practices and regulatory expectations. As technology continues to evolve, so too will the functionalities and applications of EHR systems—offering even greater support for healthcare professionals committed to delivering exemplary patient care while safeguarding themselves against legal uncertainties.



# Challenges and Solutions in Adapting to New Codes



In today's rapidly evolving digital landscape, the role of coders has expanded beyond traditional software development to encompass a variety of specialized fields. One such niche is the creation and maintenance of legal documentation standards, where coders play a crucial role in ensuring that digital documents meet stringent legal requirements. This intersection of technology and law necessitates a unique set of training and education requirements for coders, who must navigate both the technical aspects of coding and the intricate nuances of legal documentation.

To begin with, coders venturing into this field must possess a solid foundation in computer science principles. Proficiency in programming languages such as Python, JavaScript, or Ruby is essential, as these are often used to automate documentation processes and ensure compliance with legal standards. Beyond technical skills, understanding data structures and algorithms is crucial for efficiently managing large volumes of information typically involved in legal documents.

However, technical prowess alone is not sufficient. Coders must also develop a comprehensive understanding of relevant legal concepts and terminologies. This includes grasping the essentials of intellectual property rights, privacy laws, cybersecurity regulations, and industry-specific compliance standards. Familiarity with these areas enables coders to create systems that not only generate accurate legal documents but also safeguard sensitive information against potential breaches.

The ability to interpret complex legal texts is another critical skill for coders working with legal documentation standards. Legal language can be dense and filled with jargon; therefore, training programs should emphasize reading comprehension and analytical skills tailored towards deciphering legislative texts. Additionally, courses on logic and reasoning can be beneficial in developing an aptitude for constructing clear and coherent code that aligns with legal stipulations.

Interdisciplinary education plays a pivotal role in bridging the gap between coding expertise and legal knowledge. Many educational institutions now offer specialized programs or certifications that combine elements from both fields. These programs often involve collaboration between departments—such as law schools partnering with computer science faculties—to provide students with a holistic learning experience.

Moreover, ongoing professional development is vital due to the ever-changing nature of both technology and law. Attending workshops, webinars, or conferences focused on emerging trends in digital documentation or changes in legislation can help coders stay updated on best

practices. Participation in online communities or forums dedicated to tech-law intersections provides an additional platform for exchanging ideas and gaining insights from peers worldwide.

Practical experience through internships or project-based learning opportunities further enhances a coder's ability to apply theoretical knowledge effectively within real-world contexts. Working alongside experienced professionals allows aspiring coders to gain firsthand exposure to challenges encountered when creating legally compliant software solutions.

In conclusion, the training and education requirements for coders working on legal documentation standards are multifaceted-requiring mastery over programming skills while simultaneously cultivating an understanding of complex legal frameworks. As organizations increasingly rely on technology-driven solutions for their operations-including compliance-related tasks-the demand for skilled professionals who can seamlessly integrate coding capabilities with regulatory expertise will continue growing exponentially across various industries globally.

## About financial accounting



This article **needs additional citations for verification**. Please help **improve this article** by **adding citations to reliable sources**. Unsourced material may be challenged and removed.

*Find sources: "Financial accounting" – news · newspapers · books · scholar · JSTOR (October 2007) (Learn how and when to remove this message)*

- **v**
- **t**
- **e**

Part of **a series** on

### **Accounting**

### **Early 19th-century German ledger**

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- **Constant purchasing power**
- **Historical cost**
- **Management**
- **Tax**

## Major types

- **Audit**
- **Budget**
- **Cost**
- **Forensic**
- **Financial**
- **Fund**
- **Governmental**
- **Management**
- **Social**
- **Tax**

## Key concepts

- **Accounting period**
- **Accrual**
- **Constant purchasing power**
- **Economic entity**
- **Fair value**
- **Going concern**
- **Historical cost**
- **Matching principle**
- **Materiality**
- **Revenue recognition**
- **Unit of account**

## Selected accounts

- **Assets**
- **Cash**
- **Cost of goods sold**
- **Depreciation / Amortization (business)**
- **Equity**
- **Expenses**
- **Goodwill**
- **Liabilities**
- **Profit**
- **Revenue**

## Accounting standards

- **Generally-accepted principles**
- **Generally-accepted auditing standards**
- **Convergence**
- **International Financial Reporting Standards**
- **International Standards on Auditing**
- **Management Accounting Principles**

## Financial statements

- Annual report
- Balance sheet
- Cash-flow
- Equity
- Income
- Management discussion
- Notes to the financial statements

## Bookkeeping

- Bank reconciliation
- Debits and credits
- Double-entry system
- FIFO and LIFO
- Journal
- Ledger / General ledger
- Trial balance

## Auditing

- Financial
- Internal
- Firms
- Report
- Sarbanes–Oxley Act

## People and organizations

- Accountants
- Accounting organizations
- Luca Pacioli

## Development

- History
- Research
- Positive accounting
- Sarbanes–Oxley Act

## Misconduct

- Creative
- Earnings management
- Error account
- Hollywood
- Off-balance-sheet
- Two sets of books

**Financial accounting** is a branch of **accounting** concerned with the summary, analysis and reporting of financial transactions related to a business.<sup>[1]</sup> This involves the

preparation of **financial statements** available for public use. **Stockholders, suppliers, banks, employees, government agencies, business owners**, and other **stakeholders** are examples of people interested in receiving such information for decision making purposes.

Financial accountancy is governed by both local and international accounting standards. **Generally Accepted Accounting Principles** (GAAP) is the standard framework of guidelines for financial accounting used in any given jurisdiction. It includes the standards, conventions and rules that accountants follow in recording and summarizing and in the preparation of financial statements.

On the other hand, **International Financial Reporting Standards** (IFRS) is a set of accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the **International Accounting Standards Board** (IASB).<sup>[2]</sup> With IFRS becoming more widespread on the international scene, *consistency* in financial reporting has become more prevalent between global organizations.

While financial accounting is used to prepare accounting information for people outside the organization or not involved in the day-to-day running of the company, **managerial accounting** provides accounting information to help managers make decisions to manage the business.

## Objectives

[edit]

Financial accounting and financial reporting are often used as synonyms.

1. According to International Financial Reporting Standards: the objective of financial reporting is:

To provide financial information that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the reporting entity.<sup>[3]</sup>

2. According to the European Accounting Association:

Capital maintenance is a competing objective of financial reporting.<sup>[4]</sup>

Financial accounting is the preparation of financial statements that can be consumed by the public and the relevant stakeholders. Financial information would be useful to users if such qualitative characteristics are present. When producing financial statements, the

following must comply: **Fundamental Qualitative Characteristics:**

- **Relevance:** Relevance is the capacity of the financial information to influence the decision of its users. The ingredients of relevance are the predictive value and confirmatory value. Materiality is a sub-quality of relevance. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- **Faithful Representation:** Faithful representation means that the actual effects of the transactions shall be properly accounted for and reported in the financial statements. The words and numbers must match what really happened in the transaction. The ingredients of faithful representation are completeness, neutrality and free from error. It signifies that the accountants have acted in **good faith** during the process of representation.

**Enhancing Qualitative Characteristics:**

- **Verifiability:** Verifiability implies consensus between the different knowledgeable and independent users of financial information. Such information must be supported by sufficient evidence to follow the principle of objectivity.
- **Comparability:** Comparability is the uniform application of accounting methods across entities in the same industry. The principle of consistency is under comparability. Consistency is the uniform application of accounting across points in time within an entity.
- **Understandability:** Understandability means that accounting reports should be expressed as clearly as possible and should be understood by those to whom the information is relevant.
- **Timeliness:** Timeliness implies that financial information must be presented to the users before a decision is to be made.

**Three components of financial statements**

[edit]

## Statement of cash flows (cash flow statement)

[edit]

The statement of cash flows considers the inputs and outputs in concrete cash within a stated period. The general template of a cash flow statement is as follows: *Cash Inflow - Cash Outflow + Opening Balance = Closing Balance*

Example 1: in the beginning of September, Ellen started out with \$5 in her bank account. During that same month, Ellen borrowed \$20 from Tom. At the end of the month, Ellen

bought a pair of shoes for \$7. Ellen's cash flow statement for the month of September looks like this:

- Cash inflow: \$20
- Cash outflow: \$7
- Opening balance: \$5
- **Closing balance:  $\$20 - \$7 + \$5 = \$18$**

Example 2: in the beginning of June, WikiTables, a company that buys and resells tables, sold 2 tables. They'd originally bought the tables for \$25 each, and sold them at a price of \$50 per table. The first table was paid out in cash however the second one was bought in credit terms. WikiTables' cash flow statement for the month of June looks like this:

- Cash inflow: \$50 - *How much WikiTables received in cash for the first table. They didn't receive cash for the second table (sold in credit terms).*
- Cash outflow: \$50 - *How much they'd originally bought the 2 tables for.*
- Opening balance: \$0
- **Closing balance:  $\$50 - 2 * \$25 + \$0 = \$50 - 50 = \$0$**  - *Indeed, the cash flow for the month of June for WikiTables amounts to \$0 and not \$50.*

Important: the cash flow statement only considers the exchange of **actual** cash, and ignores what the person in question owes or is owed.

## **Statement of financial performance (income statement, profit & loss (p&l) statement, or statement of operations)**

[edit]

The statement of profit or income statement represents the changes in value of a company's **accounts** over a set period (most commonly one **fiscal year**), and may compare the changes to changes in the same accounts over the previous period. All changes are summarized on the "bottom line" as **net income**, often reported as "net loss" when income is less than zero.

The net profit or loss is determined by:

Sales (revenue)

– **cost of goods sold**

– selling, general, administrative expenses (SGA)

– **depreciation**/ amortization

= earnings before interest and taxes (**EBIT**)

– interest and tax expenses

= profit/loss

## Statement of financial position (**balance sheet**)

[**edit**]

The balance sheet is the financial statement showing a firm's **assets**, **liabilities** and **equity** (capital) at a set point in time, usually the end of the fiscal year reported on the accompanying income statement. The total assets always equal the total combined liabilities and equity. This statement best demonstrates the basic accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

The statement can be used to help show the financial position of a company because liability accounts are external claims on the firm's assets while equity accounts are internal claims on the firm's assets.

Accounting standards often set out a general format that companies are expected to follow when presenting their balance sheets. **International Financial Reporting Standards** (IFRS) normally require that companies report **current** assets and liabilities separately from non-current amounts.<sup>[5][6]</sup> A GAAP-compliant balance sheet must list assets and liabilities based on decreasing liquidity, from most liquid to least liquid. As a result, current assets/liabilities are listed first followed by non-current assets/liabilities. However, an IFRS-compliant balance sheet must list assets/liabilities based on increasing liquidity, from least liquid to most liquid. As a result, non-current assets/liabilities are listed first followed by current assets/liabilities.<sup>[7]</sup>

Current assets are the most liquid assets of a firm, which are expected to be realized within a 12-month period. Current assets include:

- **cash** - physical money
- **accounts receivable** - revenues earned but not yet collected



- Merchandise inventory - consists of goods and services a firm currently owns until it ends up getting sold
- **Investee companies** - expected to be held less than one financial period
- **prepaid expenses** - expenses paid for in advance for use during that year

Non-current assets include **fixed** or long-term assets and **intangible assets**:

- *fixed (long term) assets*
  - property
  - building
  - equipment (such as factory machinery)
- *intangible assets*
  - copyrights
  - trademarks
  - patents
  - goodwill

Liabilities include:

- *current liabilities*
  - trade accounts payable
  - dividends payable
  - employee salaries payable
  - interest (e.g. on debt) payable
- *long term liabilities*
  - mortgage notes payable
  - bonds payable

Owner's equity, sometimes referred to as net assets, is represented differently depending on the type of business ownership. Business ownership can be in the form of a sole proprietorship, partnership, or a **corporation**. For a corporation, the owner's equity portion usually shows common stock, and retained earnings (earnings kept in the company). Retained earnings come from the retained earnings statement, prepared prior to the balance sheet. **[8]**

### **Statement of retained earnings (statement of changes in equity)**

**[edit]**

This statement is additional to the three main statements described above. It shows how the distribution of income and transfer of dividends affects the wealth of shareholders in the company. The concept of retained earnings means profits of previous years that are accumulated till current period. Basic proforma for this statement is as follows:

Retained earnings at the beginning of period

+ Net Income for the period

- Dividends

= Retained earnings at the end of period.[9]

## Basic concepts

[edit]

# The stable measuring assumption

[edit]

One of the basic principles in accounting is "The Measuring Unit principle":

The unit of measure in accounting shall be the base money unit of the most relevant currency. This principle also assumes the unit of measure is stable; that is, changes in its general purchasing power are not considered sufficiently important to require adjustments to the basic financial statements."[10]

Historical Cost Accounting, i.e., financial capital maintenance in nominal monetary units, is based on the stable measuring unit assumption under which accountants simply assume that money, the monetary unit of measure, is perfectly stable in real value for the purpose of measuring (1) monetary items not inflation-indexed daily in terms of the Daily CPI and (2) constant real value non-monetary items not updated daily in terms of the Daily CPI during low and high inflation and deflation.

## Units of constant purchasing power

[edit]

The stable monetary unit assumption is not applied during hyperinflation. IFRS requires entities to implement capital maintenance in units of constant purchasing power in terms of IAS 29 Financial Reporting in Hyperinflationary Economies.

Financial accountants produce financial statements based on the accounting standards in a given jurisdiction. These standards may be the **Generally Accepted Accounting**

**Principles** of a respective country, which are typically issued by a national standard setter, or **International Financial Reporting Standards (IFRS)**, which are issued by the **International Accounting Standards Board (IASB)**.

Financial accounting serves the following purposes:

- producing general purpose financial statements
- producing information used by the management of a business entity for decision making, planning and performance evaluation
- producing financial statements for meeting regulatory requirements.

## Objectives of financial accounting

[edit]

- **Systematic recording of transactions:** basic objective of accounting is to systematically record the financial aspects of business transactions (i.e. book-keeping). These recorded transactions are later on classified and summarized logically for the preparation of financial statements and for their analysis and interpretation.
- **Ascertainment of result of above recorded transactions:** accountant prepares profit and loss account to know the result of business operations for a particular period of time. If expenses exceed revenue then it is said that the business is running under loss. The profit and loss account helps the management and different stakeholders in taking rational decisions. For example, if business is not proved to be remunerative or profitable, the cause of such a state of affairs can be investigated by the management for taking remedial steps.
- **Ascertainment of the financial position of business:** businessman is not only interested in knowing the result of the business in terms of profits or loss for a particular period but is also anxious to know that what he owes (liability) to the outsiders and what he owns (assets) on a certain date. To know this, accountant prepares a financial position statement of assets and liabilities of the business at a particular point of time and helps in ascertaining the financial health of the business.
- **Providing information to the users for rational decision-making:** accounting as a 'language of business' communicates the financial result of an enterprise to various stakeholders by means of financial statements. Accounting aims to meet the financial information needs of the decision-makers and helps them in rational decision-making.
- **To know the solvency position:** by preparing the balance sheet, management not only reveals what is owned and owed by the enterprise, but also it gives the information regarding concern's ability to meet its liabilities in the short run (liquidity position) and also in the long-run (solvency position) as and when they fall due.

## Graphic definition

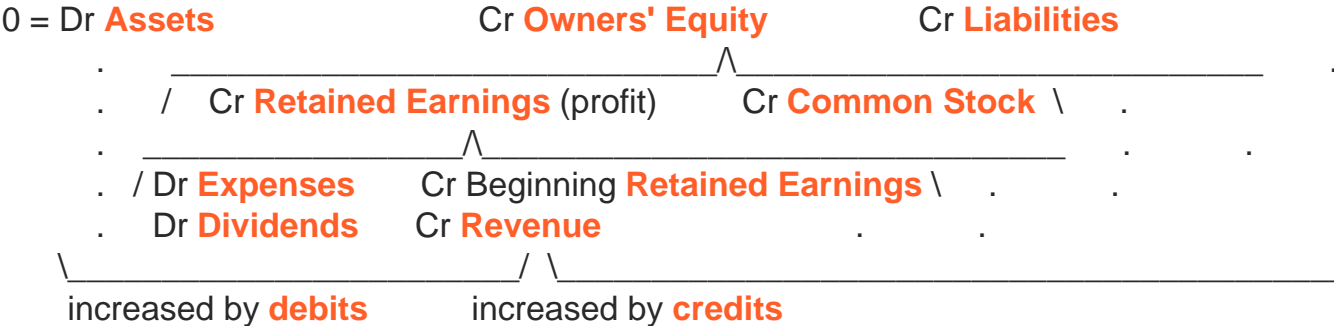
[edit]

The **accounting equation** (**Assets = Liabilities + Owners' Equity**) and financial statements are the main topics of financial accounting.

The **trial balance**, which is usually prepared using the **double-entry accounting system**, forms the basis for preparing the financial statements. All the figures in the trial balance are rearranged to prepare a **profit & loss statement** and **balance sheet**. Accounting standards determine the format for these accounts (**SSAP, FRS, IFRS**). Financial statements display the income and expenditure for the company and a summary of the assets, liabilities, and shareholders' or owners' equity of the company on the date to which the accounts were prepared.

**Asset, expense, and dividend** accounts have normal debit balances (i.e., debiting these types of accounts increases them).

**Liability, revenue, and equity** accounts have normal credit balances (i.e., crediting these types of accounts increases them).



Crediting a credit  
 Thus -----> account increases its absolute value (balance)  
 Debiting a debit

Debiting a credit  
 Thus -----> account decreases its absolute value (balance)  
 Crediting a debit

When the same thing is done to an account as its normal balance it increases; when the opposite is done, it will decrease. Much like signs in math: two positive numbers are added and two negative numbers are also added. It is only when there is one positive and one negative (opposites) that you will subtract.

However, there are instances of accounts, known as contra-accounts, which have a normal balance opposite that listed above. Examples include:

- Contra-asset accounts (such as **accumulated depreciation** and allowances for bad debt or obsolete inventory)
- Contra-revenue accounts (such as sales allowances)
- Contra-equity accounts (such as **treasury stock**)

## Financial accounting versus cost accounting

[edit]

See also: **Cost accounting**

1. Financial accounting aims at finding out results of accounting year in the form of Profit and Loss Account and Balance Sheet. Cost Accounting aims at computing cost of production/service in a scientific manner and facilitate cost control and cost reduction.
2. Financial accounting reports the results and position of business to government, creditors, investors, and external parties.
3. Cost Accounting is an internal reporting system for an organisation's own management for decision making.
4. In financial accounting, cost classification based on type of transactions, e.g. salaries, repairs, insurance, stores etc. In cost accounting, classification is basically on the basis of functions, activities, products, process and on internal planning and control and information needs of the organization.
5. Financial accounting aims at presenting 'true and fair' view of transactions, profit and loss for a period and Statement of financial position (Balance Sheet) on a given date. It aims at computing 'true and fair' view of the cost of production/services offered by the firm.[11]

## Related qualification

[edit]

Many professional accountancy qualifications cover the field of financial accountancy, including **Certified Public Accountant CPA**, **Chartered Accountant** (CA or other national designations, **American Institute of Certified Public Accountants AICPA** and **Chartered Certified Accountant (ACCA)**).

## See also

[edit]

- **Constant item purchasing power accounting**
- **DIRTI 5**
- **Historical cost accounting**
- **Philosophy of accounting**
- **Accounting analyst**, whose job involves evaluating public company financial statements
- **Management accounting**, the other main division of accounting
- **Bookkeeping**

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11. ^ *Cost and Management Accounting. Intermediate. The Institute of Cost Accountants of India. p. 17.*

## Further reading

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  - o **Financial Accounting** (2015) doi:10.24926/8668.0701 ISBN 978-1-946135-10-0
  - o Johnny Jackson, **Introduction to Financial Accounting**, Thomas Edison State University.
  - o Alexander, D., Britton, A., Jorissen, A., "International Financial Reporting and Analysis", Second Edition, 2005, **ISBN 978-1-84480-201-2**
  - o **v**
  - o **t**
  - o **e**
- Accounting**

- Type
  - Financial accounting
  - Cost accounting
  - Management accounting
  - Forensic accounting
  - Fund accounting
  - Governmental accounting
  - Social accounting
  - Tax accounting
- Statements
  - Income statement
  - Balance sheet
  - Statement of changes in equity
  - Cash flow statement
  - Debits and credits
  - Revenue
  - Cost of goods sold
- Terms
  - Operating expense
  - Capital expenditure
  - Depreciation
  - Gross income
  - Net income

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## About activity-based costing



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- v
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Part of a series on

## Accounting

## Early 19th-century German ledger

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- Constant purchasing power
- Historical cost
- Management
- Tax

### Major types

- Audit
- Budget
- Cost
- Forensic
- Financial
- Fund
- Governmental
- Management
- Social
- Tax

### Key concepts

- Accounting period
- Accrual
- Constant purchasing power
- Economic entity
- Fair value
- Going concern
- Historical cost
- Matching principle
- Materiality
- Revenue recognition
- Unit of account



## Selected accounts

- Assets
- Cash
- Cost of goods sold
- Depreciation / Amortization (business)
- Equity
- Expenses
- Goodwill
- Liabilities
- Profit
- Revenue

## Accounting standards

- Generally-accepted principles
- Generally-accepted auditing standards
- Convergence
- International Financial Reporting Standards
- International Standards on Auditing
- Management Accounting Principles

## Financial statements

- Annual report
- Balance sheet
- Cash-flow
- Equity
- Income
- Management discussion
- Notes to the financial statements

## Bookkeeping

- Bank reconciliation
- Debits and credits
- Double-entry system
- FIFO and LIFO
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- Trial balance

## Auditing

- Financial
- Internal
- Firms
- Report
- Sarbanes–Oxley Act

## People and organizations

- Accountants
- Accounting organizations
- Luca Pacioli

## Development

- History
- Research
- Positive accounting
- Sarbanes–Oxley Act

## Misconduct

- Creative
- Earnings management
- Error account
- Hollywood
- Off-balance-sheet
- Two sets of books

**Activity-based costing (ABC)** is a costing method that identifies activities in an organization and assigns the cost of each activity to all products and services according to the actual consumption by each. Therefore, this model assigns more indirect costs (overhead) into direct costs compared to conventional costing.

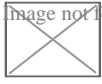
The UK's Chartered Institute of Management Accountants (CIMA), defines ABC as an approach to the costing and monitoring of activities which involves tracing resource consumption and costing final outputs. Resources are assigned to activities, and activities to cost objects based on consumption estimates. The latter utilize cost drivers to attach activity costs to outputs.<sup>[1]</sup>

The Institute of Cost Accountants of India says, ABC systems calculate the costs of individual activities and assign costs to cost objects such as products and services on the basis of the activities undertaken to produce each product or services. It accurately identifies sources of profit and loss.<sup>[2]</sup>

The Institute of Cost & Management Accountants of Bangladesh (ICMAB) defines activity-based costing as an accounting method which identifies the activities which a firm performs and then assigns indirect costs to cost objects.<sup>[3]</sup>

## Objectives

[edit]



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With ABC, a company can soundly estimate the cost elements of entire products, activities and services, that may help inform a company's decision to either:

- Identify and eliminate those products and services that are unprofitable and lower the prices of those that are overpriced (product and service portfolio aim), or
- Identify and eliminate production or service processes which are ineffective, and allocate processing concepts that lead to the very same product at a better yield (process re-engineering aim)

In a business organization, the ABC methodology assigns an organization's resource costs through activities to the products and services provided to its customers. ABC is generally used as a tool for understanding product and customer cost and profitability based on the production or performing processes. As such, ABC has predominantly been used to support strategic decisions such as pricing, outsourcing, identification and measurement of process improvement initiatives.

## Prevalence

[edit]

Following strong initial uptake, ABC lost ground in the 1990s compared to alternative metrics, such as Kaplan's balanced scorecard and economic value added. An independent 2008 report concluded that manually driven ABC was an inefficient use of resources: it was expensive and difficult to implement for small gains, and a poor value, and that alternative methods should be used.<sup>[4]</sup> Other reports show the broad band covered with the ABC methodology.<sup>[5]</sup>

However, application of an activity based recording may be applied as an addition to **activity based accounting**, not as a replacement of any *costing* model, but to transform concurrent process accounting into a more authentic approach.

## Historical development

[edit]

Traditionally, cost accountants had arbitrarily added a broad percentage of analysis into the indirect cost. In addition, activities include actions that are performed both by people and machine.

However, as the percentages of indirect or overhead costs rose, this technique became increasingly inaccurate, because indirect costs were not caused equally by all products. For example, one product might take more time in one expensive machine than another product—but since the amount of direct labor and materials might be the same, additional cost for use of the machine is not being recognized when the same broad 'on-cost' percentage is added to all products. Consequently, when multiple products share common costs, there is a danger of one product subsidizing another.

ABC is based on George Staubus' Activity Costing and Input-Output Accounting.<sup>[6]</sup> The concepts of ABC were developed in the manufacturing sector of the United States during the 1970s and 1980s. During this time, the *Consortium for Advanced Management-International*, now known simply as *CAM-I*, provided a formative role for studying and formalizing the principles that have become more formally known as Activity-Based Costing.<sup>[7]</sup>

Robin Cooper and Robert S. Kaplan, proponents of the Balanced Scorecard, brought notice to these concepts in a number of articles published in *Harvard Business Review* beginning in 1988. Cooper and Kaplan described ABC as an approach to solve the problems of traditional cost management systems. These traditional costing systems are often unable to determine accurately the actual costs of production and of the costs of related services. Consequently, managers were making decisions based on inaccurate data especially where there are multiple products.

Instead of using broad arbitrary percentages to allocate costs, ABC seeks to identify cause and effect relationships to objectively assign costs. Once costs of the activities have been identified, the cost of each activity is attributed to each product to the extent that the product uses the activity. In this way, ABC often identifies areas of high overhead costs per unit and so directs attention to finding ways to reduce the costs or to charge more for more costly products.

Activity-based costing was first clearly defined in 1987 by Robert S. Kaplan and W. Bruns as a chapter in their book *Accounting and Management: A Field Study Perspective*.<sup>[8]</sup> They initially focused on manufacturing industry where increasing technology and productivity improvements have reduced the relative proportion of the direct costs of labor and materials, but have increased relative proportion of indirect costs. For example, increased automation has reduced labor, which is a direct cost, but has increased depreciation, which is an indirect cost.

Like manufacturing industries, financial institutions have diverse products and customers, which can cause cross-product, cross-customer subsidies. Since personnel expenses represent the largest single component of non-interest expense in financial institutions, these costs must also be attributed more accurately to products and customers. Activity based costing, even though originally developed for manufacturing, may even be a more useful tool for doing this.<sup>[9]</sup><sup>[10]</sup>

Activity-based costing was later explained in 1999 by Peter F. Drucker in the book *Management Challenges of the 21st Century*.<sup>[11]</sup> He states that traditional cost accounting focuses on what it costs to *do something*, for example, to cut a screw thread; activity-based costing also records the cost of *not doing*, such as the cost of waiting for a needed part. Activity-based costing records the costs that traditional cost accounting does not do.

The overhead costs assigned to each activity comprise an activity cost pool.

From a historical perspective the practices systematized by ABC were first demonstrated by Frederick W. Taylor in *Principles of Scientific Management* in 1911 (1911. Taylor, Frederick Winslow (1919) [1911]. *The Principles of Scientific Management*. Harper & Brothers – via Internet Archive (Prelinger Library) Free access icon. LCCN 11-10339; OCLC 233134 (all editions). *The Principles of Scientific Management* – via Project Gutenberg Free access icon.). Those were the basis of the famous time and motion studies (Time and motion study) that predated the later work by Walter Shewhart (Walter A. Shewhart) and W Edwards Deming (W. Edwards Deming). Kaplan's work tied the earlier work to the modern practice of accounting.

## Alternatives

[edit]

Main article: Management accounting

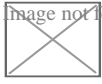
Lean accounting methods have been developed in recent years to provide relevant and thorough accounting, control, and measurement systems without the complex and costly methods of manually driven ABC.

Lean accounting is primarily used within lean manufacturing. The approach has proven useful in many service industry areas including healthcare, construction, financial services, governments, and other industries.

Application of Theory of constraints (TOC) is analysed in a study<sup>[12]</sup> showing interesting aspects of productive coexistence of TOC and ABC application. Identifying cost drivers in ABC is described as somewhat equivalent to identifying bottlenecks in TOC. However the more thorough insight into cost composition for the inspected processes justifies the study result: ABC may deliver a better structured analysis in respect to complex processes, and this is no surprise regarding the necessarily spent effort for detailed ABC reporting.

## Methodology

[edit]



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Methodology of ABC focuses on cost allocation in operational management. ABC helps to segregate

- Fixed cost
- Variable cost
- Overhead cost

If achieved, the split of cost helps to identify cost drivers. Direct labour and materials are relatively easy to trace directly to products, but it is more difficult to directly allocate indirect costs to products. Where products use common resources differently, some sort of weighting is needed in the cost allocation process. The *cost driver* is a factor that creates or drives the cost of the activity. For example, the cost of the activity of bank tellers can be ascribed to each product by measuring how long each product's transactions (cost driver) take at the counter and then by measuring the number of each type of transaction. For the activity of running machinery, the driver is likely to be machine operating hours, looking at labor, maintenance, and power cost during the period of machinery activity.

## Application

[edit]

ABC has proven its applicability beyond academic discussion.<sup>[*citation needed*]</sup>

ABC

- is applicable throughout company financing, costing and accounting:
- is a modeling process applicable for full scope as well as for partial views.
- helps to identify inefficient products, departments and activities.
- helps to allocate more resources on profitable products, departments and activities.
- helps to control the costs at any per-product-level level and on a departmental level.
- helps to find unnecessary costs that may be eliminated.
- helps fixing the price of a product or service with any desired analytical resolution.

A report summarizes reasons for implementing ABC as mere unspecific and mainly for case study purposes<sup>[13]</sup> (in alphabetical order):

- Better Management
- Budgeting, performance measurement
- Calculating costs more accurately
- Ensuring product /customer profitability

- Evaluating and justifying investments in new technologies
- Improving product quality via better product and process design
- Increasing competitiveness or coping with more competition
- Management
- Managing costs
- Providing behavioral incentives by creating cost consciousness among employees
- Responding to an increase in overheads
- Responding to increased pressure from regulators
- Supporting other management innovations such as TQM and JIT systems

Beyond such selective application of the concept, ABC may be extended to accounting, hence proliferating a full scope of cost generation in departments or along product manufacturing. Such extension, however requires a degree of automatic data capture that prevents from cost increase in administering costs.

## Implementation

[edit]

According to Manivannan Senthil Velmurugan, Activity-based costing must be implemented in the following ways:[<sup>14</sup>]

1. Identify and assess ABC needs - Determine viability of ABC method within an organization.
2. Training requirements - Basic training for all employees and workshop sessions for senior managers.
3. Define the project scope - Evaluate mission and objectives for the project.
4. Identify activities and drivers - Determine what drives what activity.
5. Create a cost and operational flow diagram – How resources and activities are related to products and services.
6. Collect data – Collecting data where the diagram shows operational relationship.
7. Build a software model, validate and reconcile.
8. Interpret results and prepare management reports.
9. Integrate data collection and reporting.

## Public sector usage

[edit]

When ABC is reportedly used in the public administration sector, the reported studies do not provide evidence about the success of methodology beyond justification of budgeting practise and existing service management and strategies.

Usage in the US Marine Corps started in 1999.<sup>[15][16][17][18]</sup>

Use of ABC by the UK Police has been mandated since the 2003-04 UK tax year as part of England and Wales' National Policing Plan, specifically the Policing Performance Assessment Framework.<sup>[19]</sup>

## Integrating EVA and process based costing

[edit]

Recently, Mocciaro Li Destri, Picone & Minà (2012)<sup>[20]</sup> proposed a performance and cost measurement system that integrates the economic value added (EVA) criteria with process based costing (PBC).

Authors note that activity-based costing system is introspective and focuses on a level of analysis which is too low.<sup>[citation needed]</sup> On the other hand, they underscore the importance to consider the cost of capital in order to bring strategy back into performance measures.<sup>[citation needed]</sup>

## Limitations

[edit]



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Applicability of ABC is bound to cost of required data capture.<sup>[1]</sup> That drives the prevalence to slow processes in services and administrations, where staff time consumed per task defines a dominant portion of cost. Hence the reported application for production tasks do not appear as a favored scenario.

## Treating fixed costs as variable

[edit]

The potential problem with ABC, like other cost allocation approaches, is that it essentially treats fixed costs as if they were variable. This can, without proper understanding, give some people an inaccurate understanding which can then lead to poor decision making. For example, allocating PPE to individual products, may lead to discontinuation of products that seem unprofitable after the allocation, even if in fact their discontinuation will negatively affect the bottom line.



# Tracing costs

[edit]

Even in ABC, some overhead costs are difficult to assign to products and customers, such as the chief executive's salary. These costs are termed 'business sustaining' and are not assigned to products and customers because there is no meaningful method. This lump of unallocated overhead costs must nevertheless be met by contributions from each of the products, but it is not as large as the overhead costs before ABC is employed.

Although some may argue that costs untraceable to activities should be "arbitrarily allocated" to products, it is important to realize that the only purpose of ABC is to provide information to management. Therefore, there is no reason to assign any cost in an arbitrary manner.

## Transition to automated activity-based costing accounting

[edit]

The prerequisite for lesser cost in performing ABC is automating the data capture with an accounting extension that leads to the desired ABC model. Known approaches for event based accounting simply show the method for automation. Any transition of a current process from one stage to the next may be detected as a relevant event. Paired events easily form the respective activity.

The state of the art approach with authentication and authorization in IETF standard RADIUS gives an easy solution for accounting all workposition based activities. That simply defines the extension of the *Authentication and Authorization* (AA) concept to a more advanced *AA and Accounting* (AAA) concept. Respective approaches for AAA get defined and staffed in the context of mobile services, when using smart phones as e.a. intelligent agents or smart agents for automated capture of accounting data .

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[edit]

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## External links

[edit]

- Who Wins in a Dynamic World: Theory of Constraints Vs. Activity-Based Costing? article on SSRN
- proposed International Good Practice Guidance on Costing to Drive Organizational Performance - International Federation of Accountants

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