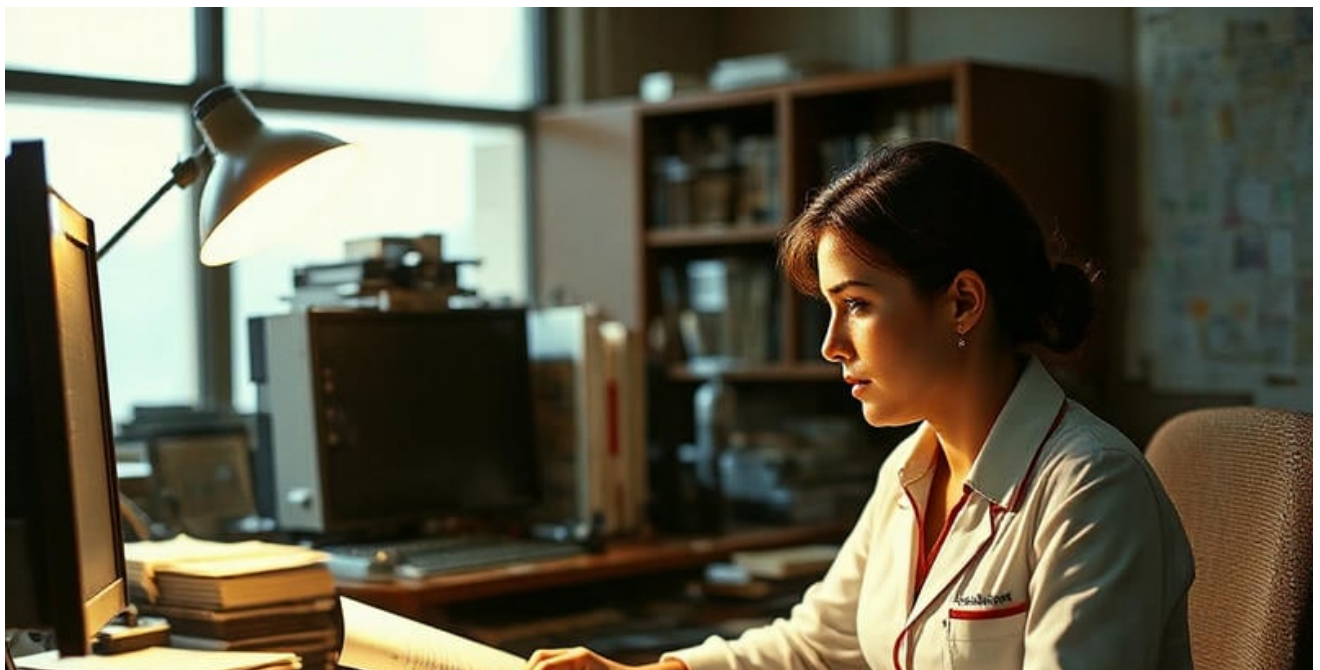


Medical Staffing



- **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
- **About Us**



Medical coding is a critical component of the healthcare industry, serving as the bridge between clinical care and administrative functions such as billing and compliance. It involves the transformation of healthcare diagnoses, procedures, medical services, and equipment into universal medical alphanumeric codes. The importance of medical coding cannot be overstated, especially when considering its role in ensuring accurate billing and maintaining compliance with legal standards.

Effective staffing ensures appropriate resource allocation in healthcare settings **medical staffing services** dentist.

The significance of precise medical coding is underscored by examining cases related to the False Claims Act (FCA), which serve as cautionary tales for healthcare providers. The FCA is a federal law that imposes liability on individuals and companies who defraud governmental programs. Inaccurate or fraudulent medical coding can lead to false claims being submitted to government payers like Medicare and Medicaid, resulting in severe penalties including hefty fines and reputational damage.

One lesson from past FCA case studies is the necessity for rigorous training and oversight in medical coding practices. Many cases reveal that errors often stem from inadequate training or lack of understanding of complex coding systems among healthcare staff. This highlights the need for continuous education and certification programs to ensure that coders are well-versed with current guidelines and changes in regulations.

Another key takeaway is the importance of implementing robust audit systems within healthcare facilities. Regular audits can help identify discrepancies or patterns indicative of incorrect coding before they escalate into larger issues. This proactive approach not only aids in maintaining compliance but also enhances overall operational efficiency by preventing revenue loss due to denied claims or potential legal action.

Moreover, these case studies emphasize fostering a culture of transparency and accountability within organizations. Encouraging open communication about concerns related to billing practices can help uncover potential issues early on. An environment where employees feel empowered to report suspected inaccuracies without fear of retaliation can significantly reduce instances of fraud.

Furthermore, investing in technology solutions such as sophisticated electronic health record (EHR) systems can greatly improve accuracy in medical coding. Advanced software tools equipped with artificial intelligence capabilities can assist coders by flagging anomalies

or suggesting correct codes based on patient records, thereby minimizing human error.

In conclusion, lessons from False Claims Act case studies illustrate that accurate medical coding is indispensable not only for efficient billing processes but also for adherence to legal standards. Healthcare providers must prioritize comprehensive training programs, establish effective audit mechanisms, promote transparency within their organizations, and leverage technology to enhance their coding practices. By doing so, they can safeguard themselves against legal repercussions while ensuring optimal patient care through reliable documentation practices.

Overview of the Update Process for ICD-10-CM Codes

- Importance of Annual Updates in Medical Coding
- Overview of the Update Process for ICD-10-CM Codes
- Key Changes and Additions to the Latest ICD-10-CM Code Set
- Impact of Updates on Healthcare Providers and Coders
- Strategies for Staying Informed About Code Changes
- Challenges and Solutions in Adapting to New Codes

The False Claims Act (FCA), a powerful tool in combating fraud against government programs, has been instrumental in holding entities accountable for false medical coding practices. Through several notable case studies, we can extract valuable lessons on compliance, ethics, and the consequences of fraudulent activities in the healthcare sector.

One pivotal case involved a major hospital chain that was found guilty of systematically upcoding-billing for more expensive services than were actually provided. This practice not only resulted in hefty fines but also highlighted the importance of accurate medical coding as a cornerstone of ethical billing practices. The lesson here is clear: healthcare providers must ensure robust internal auditing processes to prevent and detect inaccuracies in coding that could lead to FCA violations.

Another significant case involved a group of diagnostic laboratories accused of bundling services improperly. By unbundling these services and submitting separate claims for each procedure, they falsely inflated their billings to Medicare. This case underscores the necessity for comprehensive training concerning proper coding techniques and billing regulations. Healthcare organizations should invest in ongoing education for their staff to remain compliant with current laws and guidelines.

A third noteworthy example featured a pharmaceutical company that engaged in off-label marketing tactics, subsequently leading physicians to submit false claims unknowingly. This situation serves as a cautionary tale about the ripple effect one entity's actions can have throughout the healthcare system. It illustrates the critical need for transparency and strict adherence to approved uses of drugs when communicating with healthcare providers.

These cases collectively teach us that beyond financial penalties, reputational damage can be severe and long-lasting following FCA violations. Organizations implicated in such cases often face diminished trust from patients and partners alike, underscoring the broader impact of unethical practices.

Ultimately, these case studies reveal that vigilance is key; maintaining detailed records, conducting regular audits, providing thorough training, and fostering an organizational culture centered around integrity are all essential strategies to avoid falling afoul of FCA regulations. As we learn from past missteps within medical coding practices under FCA scrutiny, it becomes evident that commitment to compliance benefits not only individual entities but enhances overall trust within our healthcare systems.

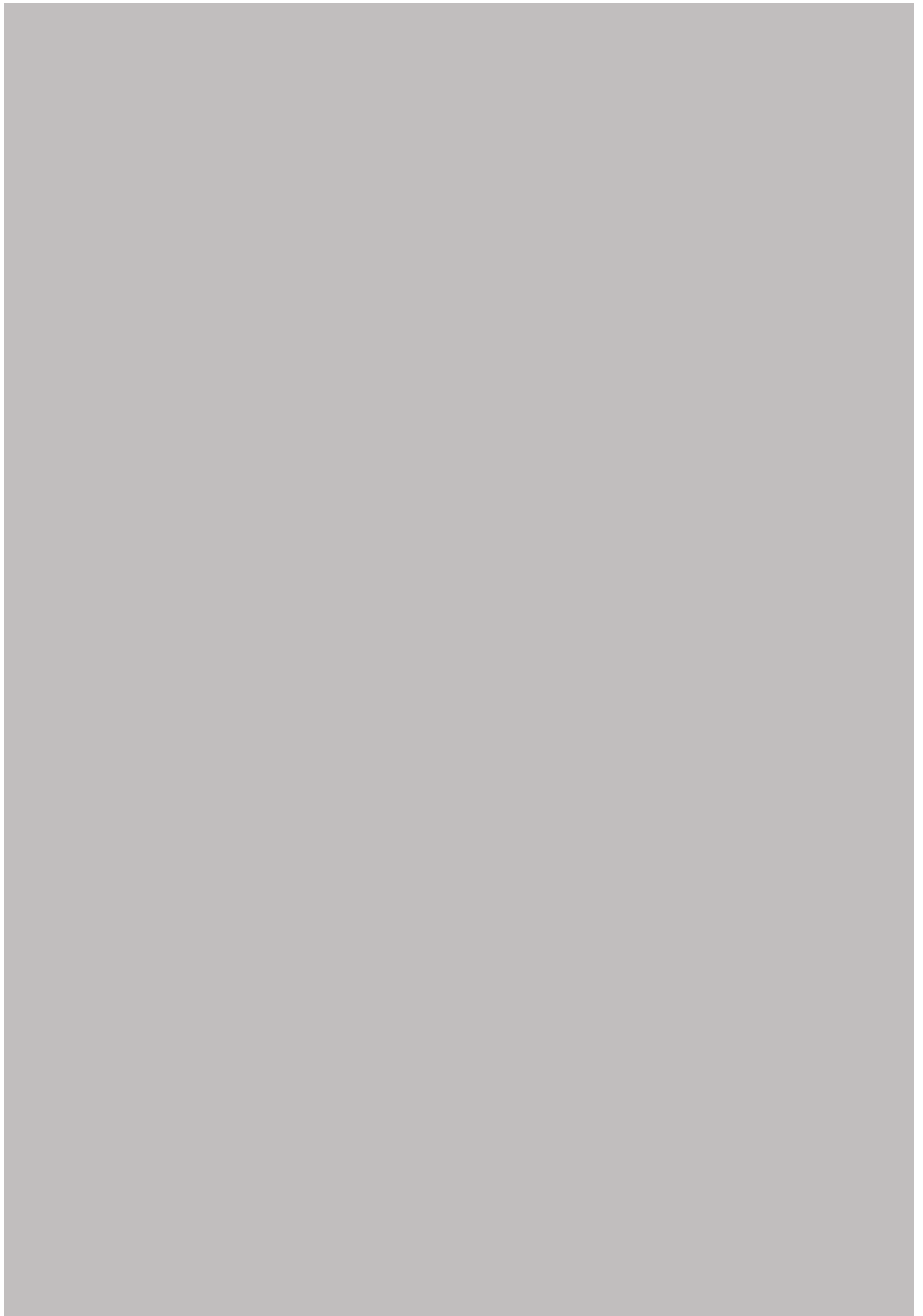
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Key Changes and Additions to the Latest ICD-10-CM Code Set

The False Claims Act (FCA), a powerful tool in the fight against fraud, waste, and abuse in government programs, has been instrumental in uncovering various fraudulent practices over the years. Through numerous case studies, we can identify common schemes that perpetrators employ to deceive and exploit government funds. By examining these fraudulent practices, we glean valuable lessons for prevention and enforcement.

One prevalent form of fraud uncovered in FCA cases is billing for services not rendered. This deceptive practice involves submitting claims for medical procedures or services that were never provided to patients. For instance, healthcare providers might bill Medicare or Medicaid for phantom appointments or unnecessary tests. The motivation behind this scheme is often financial gain at the expense of taxpayer dollars. To counteract such fraud, it is crucial to implement robust auditing systems and encourage whistleblowers to report suspicious activities.

Another common fraudulent practice is upcoding, where service providers submit claims using codes that indicate more expensive procedures than those actually performed. This manipulation results in higher reimbursements from government programs like Medicare and Medicaid. Upcoding can be difficult to detect without meticulous review of patient records and billing statements. Therefore, training auditors to recognize discrepancies and anomalies in coding practices becomes essential in combating this type of fraud.

Kickbacks also feature prominently among fraudulent schemes revealed by FCA case studies. These unethical arrangements typically involve healthcare providers receiving financial incentives from pharmaceutical companies or other entities in exchange for prescribing certain medications or referring patients to specific facilities. Such kickbacks undermine patient care by prioritizing financial interests over medical necessity. To address this issue, stricter regulations and penalties are necessary to deter entities from engaging in such corrupt practices.

False certification is another tactic used by fraudsters to mislead the government into awarding contracts or grants under false pretenses. Companies may falsify qualifications or compliance with regulatory standards to secure lucrative contracts they would otherwise be ineligible for. Detecting false certification requires rigorous vetting processes during contract awards and regular compliance checks throughout the project's duration.

These case studies also highlight the importance of whistleblower provisions within the FCA framework. Many fraudulent schemes have been exposed thanks to insiders who reported malpractices through qui tam lawsuits-an avenue that allows individuals with knowledge of fraud against the government to file actions on its behalf. Whistleblowers play a critical role in uncovering complex schemes that might go unnoticed by external audits alone.

In conclusion, analyzing common fraudulent practices through FCA case studies reveals patterns that can inform preventative measures across industries reliant on government funding. Vigilance through comprehensive audits, stringent regulatory oversight, and incentivizing whistleblowers are key strategies for minimizing these deceptive activities' impact on public resources while safeguarding integrity within governmental programs.





Impact of Updates on Healthcare Providers and Coders

In recent years, the healthcare sector has witnessed a surge in False Claims Act (FCA) cases, serving as poignant reminders of the legal and ethical obligations that healthcare providers must uphold. The FCA, originally enacted during the Civil War to combat fraud against the federal government, has evolved into a powerful tool for ensuring integrity in healthcare billing practices. As these legal battles unfold, they offer valuable lessons that every healthcare provider should heed to avoid similar pitfalls.

One of the primary lessons from FCA cases is the critical importance of compliance programs. The establishment of robust compliance measures serves as both a shield and a guide for healthcare entities navigating complex regulatory landscapes. Comprehensive training programs and regular audits are vital components that help detect and prevent fraudulent practices before they escalate into legal challenges. By fostering an organizational culture centered on compliance and ethical behavior, providers can significantly mitigate risks associated with false claims.

Another key takeaway is the necessity for transparency in billing practices. Many FCA cases arise from inaccurate or deceptive billing, whether intentional or due to oversight. Healthcare providers must ensure that all claims submitted for reimbursement accurately reflect services rendered and comply with all applicable regulations. This includes maintaining meticulous records that document patient care activities thoroughly and truthfully. Transparency not only protects against legal repercussions but also builds trust with patients and payers alike.

Furthermore, these cases highlight the role of whistleblowers in uncovering fraudulent activities within organizations. Often driven by conscience or awareness of misconduct, whistleblowers can initiate FCA suits by filing qui tam lawsuits on behalf of the government. For healthcare providers, this underscores the importance of creating safe channels for employees to report concerns without fear of retaliation. Encouraging open dialogue about potential issues can preempt external whistleblower actions and foster internal resolution methods.

The cost implications associated with FCA violations cannot be overstated either. Beyond hefty financial penalties, settlements often include additional expenses related to corrective actions mandated by Corporate Integrity Agreements (CIAs). These agreements require organizations to undertake comprehensive compliance reforms under strict oversight—highlighting how preventive investments in compliance infrastructure can outweigh retrospective remediation costs.

Finally, there's an overarching lesson regarding accountability at all levels of an organization—from executives down to frontline staff members who interact directly with patients daily—to ensure adherence not only to laws but also ethical standards vital for patient care delivery systems' credibility.

In conclusion: As illustrated through numerous historical precedents set forth by False Claims Act case studies—healthcare providers must prioritize establishing rigorous internal controls alongside cultivating transparent environments conducive towards safeguarding both their reputations financially legally ethically amidst ever-evolving expectations surrounding quality service provision nationwide globally alike!

Strategies for Staying Informed About Code Changes

In the ever-evolving landscape of healthcare, the integrity of medical coding is crucial not just for financial accuracy but also for adhering to legal and ethical standards. With the rise in scrutiny from regulatory bodies, ensuring compliant and accurate medical coding has become a central focus for many healthcare organizations. One effective way to understand the importance of this practice is by examining lessons learned from False Claims Act (FCA) case studies.

The False Claims Act serves as a powerful tool against fraud in government-funded programs, including Medicare and Medicaid. It imposes liability on individuals and companies who defraud governmental programs, offering whistleblowers financial incentives to report misconduct. Over the years, numerous FCA cases have highlighted common pitfalls in medical coding practices that lead to significant penalties and reputational damage.

One of the key lessons from these case studies is the importance of robust training programs for coders. Ensuring that medical coders are well-versed in current coding guidelines and updates is essential. Many FCA cases reveal that errors often stem from outdated knowledge or misunderstanding of complex codes. Regular training sessions and certification renewals

can mitigate this risk by keeping staff informed about changes in regulations and best practices.

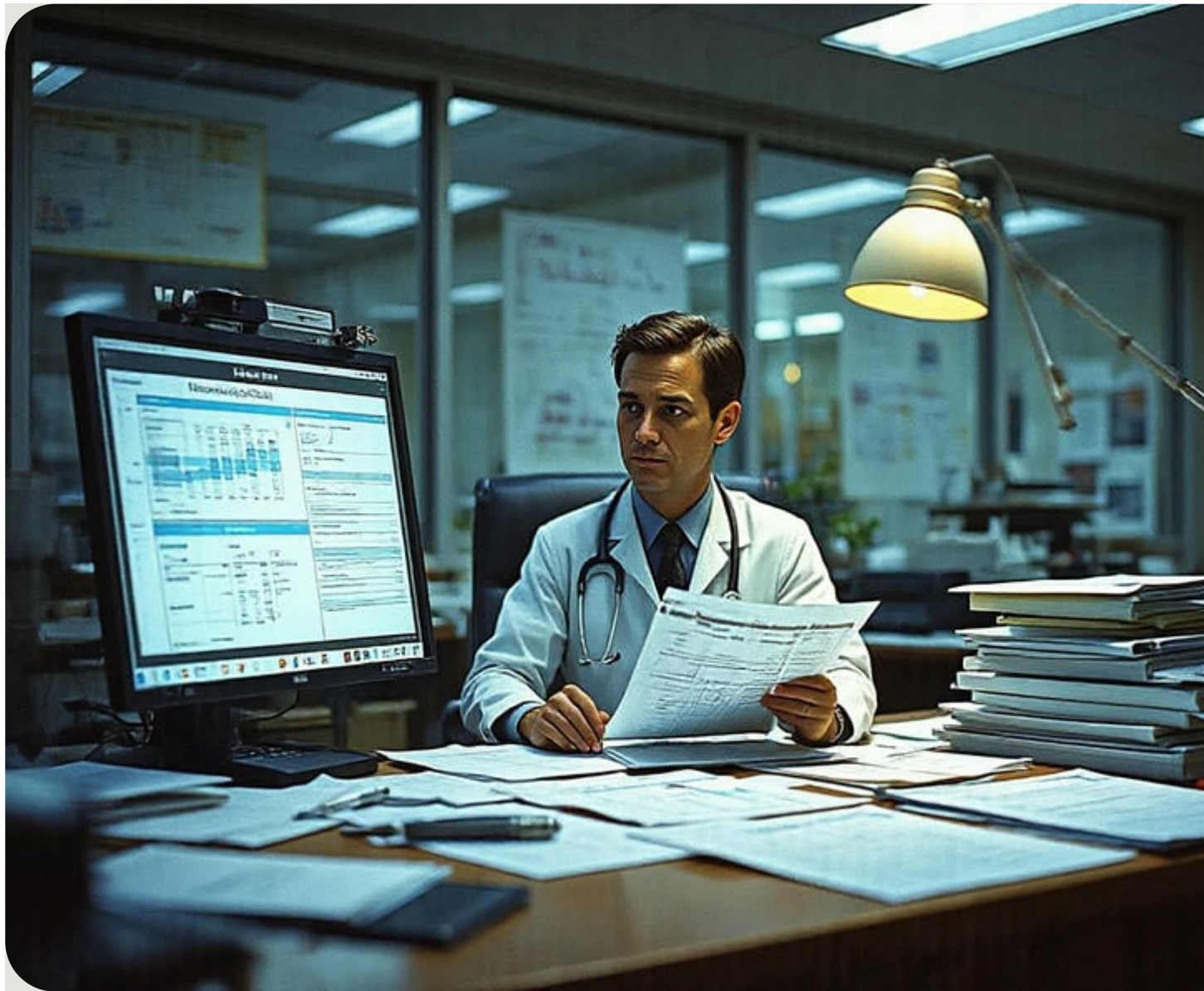
Another critical strategy is implementing comprehensive auditing systems. Internal audits serve as proactive measures to identify discrepancies before they escalate into larger issues. By routinely reviewing claims submissions, healthcare providers can detect patterns of inaccurate coding or potential compliance breaches early on. This not only helps avoid FCA violations but also enhances overall operational efficiency.

Furthermore, fostering a culture of accountability within healthcare organizations plays an instrumental role in maintaining compliance. Employees should feel empowered to report any concerns without fear of retaliation. Encouraging open communication creates an environment where ethical practices are prioritized, reducing the likelihood of fraudulent activities going unnoticed.

Technology also offers promising solutions for accurate medical coding. Advanced software tools equipped with artificial intelligence can assist coders by flagging anomalies or suggesting correct codes based on patient records and documentation. While technology should not replace human oversight, it can significantly reduce human error rates and improve consistency across coding practices.

Lastly, learning from past FCA cases underscores the necessity for clear documentation procedures. Accurate documentation provides a solid foundation upon which proper coding relies. Ambiguities or omissions in medical records often lead to incorrect code assignments, paving the way for potential FCA violations.

In conclusion, strategies drawn from False Claims Act case studies emphasize a multifaceted approach to achieving accurate and compliant medical coding: continuous education and training, rigorous auditing protocols, fostering an accountable workplace culture, leveraging technological advancements, and ensuring meticulous documentation practices all form critical components of a successful compliance strategy. By adopting these measures proactively, healthcare organizations can safeguard themselves against costly legal repercussions while upholding their commitment to delivering high-quality patient care within legal frameworks.



Challenges and Solutions in Adapting to New Codes

Training and education play pivotal roles in the realm of medical coding, particularly when it comes to preventing false claims-whether intentional or accidental-that can lead to significant legal repercussions under the False Claims Act (FCA). A review of case studies related to the FCA reveals that many instances of false claims can be traced back to a lack of proper training and understanding among healthcare professionals.

Medical coding is a complex task that requires precision, attention to detail, and an up-to-date knowledge of ever-evolving codes and regulations. Coders, billers, and healthcare providers must accurately translate patient encounters into standardized codes that are used for billing purposes. When errors occur in this translation process-whether through misinterpretation or oversight-claims submitted for reimbursement may become false under the law. The implications of such errors are severe; they can result in substantial fines, penalties, and reputational damage for healthcare institutions.

In numerous FCA case studies, a recurring theme is inadequate training as a root cause of non-compliance. Healthcare facilities often face challenges in keeping their staff abreast of changes in coding standards, payer rules, and compliance regulations. Without ongoing education, even well-intentioned employees may inadvertently submit incorrect claims simply because they lack sufficient knowledge about current requirements.

To address this issue effectively, organizations must prioritize comprehensive training programs that cover both foundational aspects of medical coding and advanced topics pertinent to regulatory compliance. These programs should be tailored to meet the specific needs of different roles within the organization-from front-line coders to administrative staff responsible for overseeing billing processes.

Moreover, education initiatives should not be static but instead adopt a continuous learning model. This ensures that all personnel remain informed about updates in the field as well as best practices for accurate documentation and claim submission. Regular workshops, webinars led by industry experts, and access to updated resources form part of an effective educational strategy.

Beyond technical proficiency with codes themselves lies another critical element: fostering an organizational culture committed to ethical practices. Training efforts must instill values such as integrity and accountability alongside skills-based learning objectives; employees who understand why accuracy matters are more likely motivated towards diligent work habits than those merely following rote instructions without context.

Furthermore-and perhaps most importantly-a robust compliance program should include mechanisms for auditing coded data before it reaches external payers: regular internal audits help catch potential discrepancies early on while providing additional opportunities for targeted retraining where necessary based on identified patterns from audit findings.

In conclusion then-it becomes clear through examining various FCA-related case studies-that investing time energy into effective training education frameworks ultimately serves dual purposes: safeguarding against inadvertent violations whilst simultaneously promoting high-quality care delivery via consistent adherence ethical guidelines governing healthcare operations today tomorrow alike!

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.



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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**
- **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.[1] 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).[2] 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. [3]

2. According to the European Accounting Association:

Capital maintenance is a competing objective of financial reporting. [4]

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. [5][6] 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. [7]

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.

Dr Dividends	Cr Revenue
\	/ \
increased by debits	increased by credits

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]

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

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[edit]

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Further reading

[edit]

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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.
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Accounting

Type

- o **Financial accounting**
- o **Cost accounting**
- o **Management accounting**
- o **Forensic accounting**
- o **Fund accounting**
- o **Governmental accounting**
- o **Social accounting**
- o **Tax accounting**
- o **Income statement**

Statements

- o **Balance sheet**
- o **Statement of changes in equity**
- o **Cash flow statement**

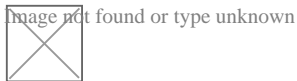
Terms

- Debits and credits
- Revenue
- Cost of goods sold
- Operating expense
- Capital expenditure
- Depreciation
- Gross income
- Net income

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About overhead

Overhead may be:



Look up ***overhead*** in Wiktionary, the free dictionary.

- Overhead (business), the ongoing operating costs of running a business
- Engineering overhead, ancillary design features required by a component of a device
 - Overhead (computing), ancillary computation required by an algorithm or program
 - Protocol overhead, additional bandwidth used by a communications protocol
 - Line code or encoding overhead, additional bandwidth required for physical line transmission
- Overhead information, for telecommunication systems
- File system overhead, storage or other consideration required by a file system that is not directly related to data. For example, in tape data storage, the separator between one file and the next is overhead.
- Any physical object situated, or action occurring above:
 - Overhead line, for power transmission
 - Overhead cable, for signal transmission
 - Overhead projector, a display system
 - Overhead storage, for example overhead storage bins, racks, shelves, cabinets or track systems in aircraft, trains or buildings
- Overhead cam, a mechanical device
- Overhead join, in air traffic control
- Overhead press, an upper-body weight training exercise in

- Overhead crane or bridge crane, a type of crane sliding on two parallel rails

See also

[edit]

- Overkill (disambiguation)

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If an internal link led you here, you may wish to change the link to point directly to the intended article.

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