Financial Masterclass Week One Study Guide

Cash Accounting: is an accounting method in which payment receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid. In other words, revenues and expenses are recorded when cash is received and paid, respectively.

Accrual Accounting: Accounting method that records revenues and expenses when they are incurred, regardless of when cash is exchanged. The term "accrual" refers to any individual entry recording revenue or expense in the absence of a cash transaction.

Profit and Loss Statement (P&L): is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a month, fiscal quarter or year.

Revenue: The money coming in.

Expenses: The money going out.

Direct Costs: Your Cost of Goods Sold (COGs) - the stuff you buy to use/resell in the practice.

Gross Profit: Gross profit refers to the money the hospital earns after subtracting the costs associated with producing and selling its products. Gross profit is represented as a whole dollar amount, showing the revenue earned after subtracting the costs of production. Gross profit is calculated by: Gross profit = Revenue - Cost of Goods Sold

Operating Expenses: ongoing cost for running a product, business, or system. Its counterpart, a capital expenditure, is the cost of developing or providing non-consumable parts for the product or system. This usually includes your rent, salaries and benefits, marketing expenses, research and development expenses, utilities, and so on. Don't include interest you pay on loans or taxes here, though.

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Operating Income: is also known as EBITDA (earnings before interest, taxes, depreciation, and amortization). This is calculated by subtracting total operating expenses from your gross margin.
Gross Margin – Total Operating Expenses = Operating Income.
Don't include interest you pay on loans or taxes here, though.

Depreciation: a reduction in the value of an asset with the passage of time, due in particular to wear and tear.

Amortization: the action or process of reducing or paying off a debt with regular payments.

Net Profit: the actual profit after working expenses not included in the calculation of gross profit have been paid.

Balance Sheet: a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.

Asset: Everything of value owned by a person, company or corporation. Assets are generally classified as tangible (including current and fixed assets) or intangible (like goodwill and accounts receivable).

Liability: the money your practice owes to others. This includes amounts owed on loans, accounts payable, wages, taxes and other debts. Similar to assets, liabilities are categorized based on their due date, or the timeframe within which you expect to pay them.

Owners Equity: Owners' equity (sometimes called net assets or net worth) represents the assets that remain after deducting what you owe. In simplified terms, it is the money you would have left over if you sold your practice and all of its assets and paid off everything you owe.