

# CHALLENGES TO RECOGNIZING REVENUE FOR TELEHEALTH VISITS

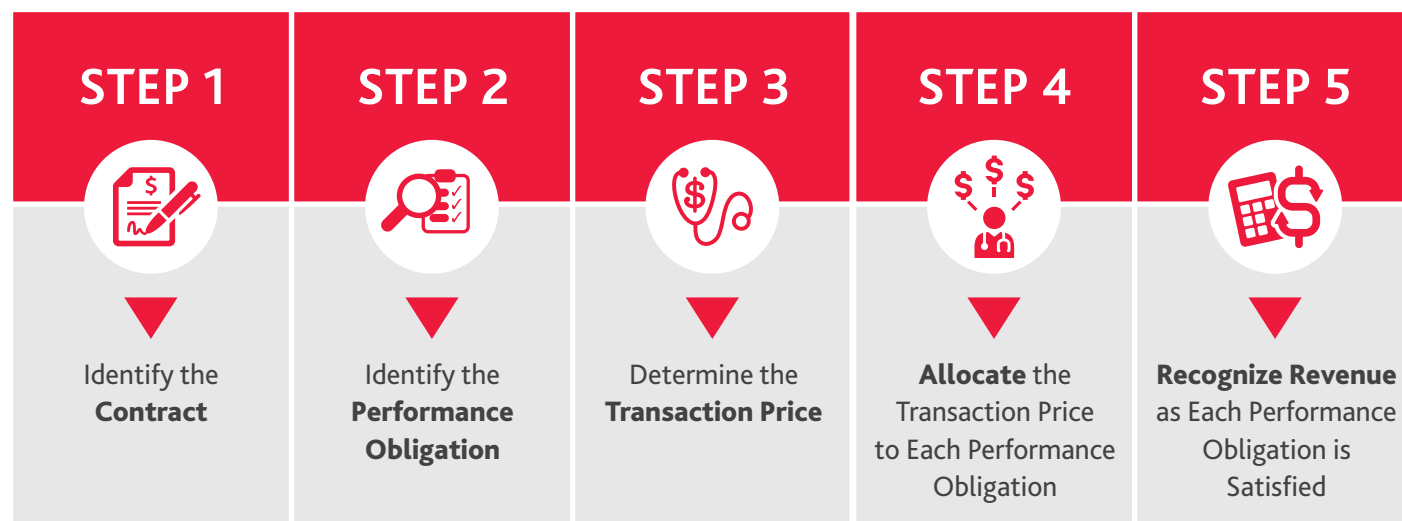


Revenue recognition is difficult at the best of times, if the number of resources on the topic across the Internet are any indication. When it comes to telehealth, though, revenue recognition can seem downright impossible. You're performing a healthcare visit, potentially across thousands of miles. You have to try to measure patient outcomes, potentially without ever actually physically interacting with your patient, and you have to understand the telehealth limitations and regulations for each state where you have patients. When it comes to revenue recognition for these visits, you can't afford to sit back and hope for the best.

Below are the challenges facing providers who must recognize revenue for telehealth visits. We illustrate common pitfalls and dangers—and the questions you can ask yourself to avoid them.

## BEFORE YOU START

There are five stages to recognizing revenue, as determined by the Financial Accounting Standards Board (FASB) rules. For more information on these stages, check out [BDO Knows: FASB](#). In short, the five stages look like this:



Now let's see what these stages look like when you're trying to recognize revenue for telehealth.



### STEP 1: Identify the Contract

The first step in recognizing revenue is determining and understanding what contract(s) exist for your organization. Part of what makes telehealth challenging is determining not only if there's a contract, but also whether you are able to enter into the contract in the first place. Telehealth visits frequently take place across state lines. Your ability to perform cross-border visits will depend on a variety of state regulations and federal policies. The regulatory landscape is complex—there are different rules, contracts and agreements for different clinicians (physicians, nurses, psychologists, physical therapists, etc.). These complications can lead to problems in identifying the validity of interstate medical services.

#### Questions to consider at this stage:

- ▶ Do I know where all my organization's telehealth visits have taken place this year?
- ▶ Do I have the proper documentary support in place for all of these visits?
- ▶ What states are my physicians and other clinicians licensed to practice in?
- ▶ What are the different regulations around telehealth for each of the states in which we've performed telehealth visits?



### STEP 2: Identify the Performance Obligation

The next step is to understand what your performance obligations are to your customer. Essentially, what value do you need to provide in order to fulfill the terms of the contract? For telehealth, it starts out simple: your obligation is caring for the patient. The complicated part is understanding when that obligation is fulfilled. Have you provided this distinct care once you've responded to the call and provided the consultation? Or has the obligation been fulfilled after a series of consultations over a period of time? Understanding what actions result in what value is critical at this stage of the process, and in Step Five.

#### Questions to consider at this stage:

- ▶ What is the key outcome I'm driving toward for each telehealth visit?
- ▶ What does it mean to fulfill my obligation to care for a patient?
- ▶ What activities are set up activities that do not give rise to revenue?
- ▶ Do we have a stand ready obligation?
- ▶ Is the consultation bundled with other services provided by other clinical specialties?



### STEP 3: Determine the Transaction Price

Being able to properly determine the transaction price for a telehealth service requires you to face down a number of considerations, including whether or not your estimation of the cost is accurate, and whether you're likely to collect the consideration to which you're entitled. If you end up billing something that is likely to be reversed in the future, then you should not recognize revenue. All these considerations add up to complexity, making this the stage where things tend to go wrong. An additional challenge is using correct billing codes. Sometimes, physicians mistakenly bill for a code that doesn't correspond to the service that was provided—that's a big problem when it comes time to recognize revenue. You have to proceed carefully, make sure you're using solid, consistent methodology for pricing and are billing accurately.

#### Questions to consider at this stage:

- ▶ What is the nature, timing and amount of the consideration?
- ▶ For each telehealth visit, does it count as a fixed consideration or is there a variable component or financing component?
- ▶ Am I confident that all billing codes are being used correctly and consistently?
- ▶ What estimation methodology do I use? Is this methodology being used consistently across my organization?
- ▶ Do we have an implicit price concession?

**STEP 4:**

## Allocate the Transaction Price to Each Performance Obligation

This step requires you to allocate the transaction price in Step Three to the performance obligation in Step Two based on the standalone selling price—this is why completing Step Two and Step Three correctly is so vital. If you misidentify your performance obligations or incorrectly estimate the transaction price of a telehealth visit, you may inaccurately allocate the transaction price of the telehealth service.

### Questions to consider at this stage:

- ▶ Is the standalone transaction price of the telehealth visit observable or estimable?
- ▶ If it is not observable, what acceptable approach should I use?
- ▶ Do I allocate the transaction price specifically to satisfying the performance of the telehealth visit?
- ▶ Is the allocation consistent with what I expect to receive for satisfying the performance obligation?

**STEP 5:**

## Recognize Revenue as Each Performance Obligation is Satisfied

One challenge with telehealth is determining what satisfaction of a performance obligation looks like. In a remote environment, where testing and physical examination are limited or entirely non-existent, it's difficult to know when the services you're performing result in a satisfied obligation, and thus determining when revenue has been recognized.

### Questions to consider at this stage:

- ▶ What tools are available for me to measure patient outcomes in a remote environment?
- ▶ Are the services I'm providing aligning with my performance obligations?
- ▶ What are the signs that I've satisfied my obligation to my patient?
- ▶ Do I recognize revenue at a point in time or over time?
- ▶ How do I address any nonrefundable upfront fees and contract costs?



## Tying it all together

The very features of telehealth that make it an attractive alternative to in-person care—like its ability to enable patient care anywhere in the U.S. for any patient with access to a computer and the internet—are what make it so difficult to manage from a revenue recognition perspective. Every healthcare provider needs to not only be aware of these challenges, but also take immediate action to make it easier to recognize revenue for telehealth in the future by collecting the appropriate patient data to understand contracts and obligations, finding ways to measure patient outcomes remotely, using billing codes accurately and more.

**NEED HELP?** Make revenue recognition easier by engaging with BDO. We can not only help you address the challenges directly related to telehealth, but also make revenue recognition as a whole a simpler and more straightforward process across the entirety of your organization. You'll feel secure in the knowledge that you're taking the right steps to proper revenue recognition and saving yourself from unwanted surprises in the future.



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