



ROLE OF FINANCE IN HEALTH AND SOCIAL CARE

Learning Outcomes

You will be able to learn.

- The concepts and essentials of accounting and financial management.
- Revenue cycle management.
- The role and types of healthcare audit.
- The significance of financial statements in healthcare.
- The concept and types of healthcare benchmarking.



Accounting In Health And Social Care

Introduction Of Accounting In Health And Social Care.

Accounting plays important role in assisting all forms of economic activity in the various health and social care sectors. Accountancy is the flow or process of transferring financial transactions to a company. Any institution dealing with funds can be regarded as the backbone of the accounting department. It therefore has an important role to play in the healthcare sector and is able to realize its true potential.



Essential Aspects Of Accounting And Financial Management

Following are essential elements of financial management in healthcare.



Revenue Cycle Management (RCM)

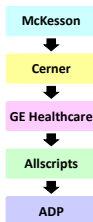
Revenue Cycle Management.

Revenue Cycle Management or RCM refers to the process of identifying the payers' revenues from the services provided, collecting and managing them. It also explains the need of accounting. A successful RCM process is critical for a healthcare practice's financial viability and ability to continue providing high-quality care to its patients.



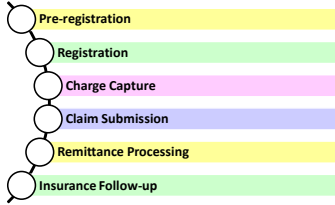
RCM vendors

Prominent vendors that sell stand-alone products or RCM systems integrated with EHR or electronic health record systems are as the following.



RCM Cycle (1)

Following are the step of the Revenue Cycle Management.



RCM Cycle (2)

Following are the steps of RCM cycle.

- **Pre-registration.**
The medical practice of pre-registration enables demographic, insurance and eligible information to be collected in real time through a clearinghouse
- **Registration.**
The registration confirms that the patient information from start to finish is hundred percent accurate.
- **Charge capture.**
RCM renders medical charges into billable charges which done in two different ways such as automatic and manual.

RCM Cycle (3)

Following are the steps of RCM cycle.

- **Claim Submission.**
Claim submission includes sending information to the insurance carrier after the charges have been entered.
- **Remittance Processing.**
Remittances will be received once a practice's claims have been sent out. Allowables are determined during this process.

RCM Cycle (4)

Following are the steps of RCM cycle.

▪ **Insurance Follow-up.**

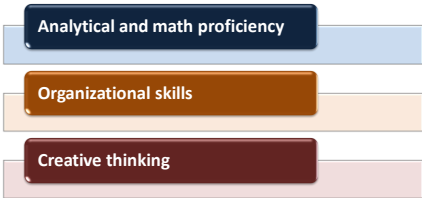
Practices examine not only what has been paid, but also what has not been paid at this stage.

▪ **Patient Collections.**

Patient collections are the most difficult part of the revenue cycle process. When a patient is in the office, the best time to get money from them.

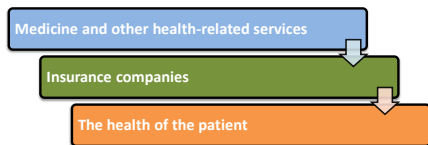
Skills Needed for Accounting in Health Care

Following are the skills required for health care accountant.



Role Of Health Care Accountant

Following are the roles of health care accountant.



Healthcare Financial Audit

Healthcare Financial Audit.

In healthcare, an audit is a systematic process used by health professionals to assess, evaluate, and improve patient care. An audit compares current practice to a set of standards. It is part of clinical governance, which aims to ensure that patients receive high-quality clinical care. There are healthcare investors who help them to make better decisions while planning for any actions.



Types of Healthcare Audit

There are mainly two types of healthcare audit, which are as the following.



Steps of Financial Audit in Healthcare Sectors

Following are the steps of financial audit in healthcare sectors.

- Choose the Right Healthcare Auditor
- Better Understanding
- Available Information
- Treatment of Healthcare Auditors
- Tracking Healthcare Audit

Financial Analysis

Financial Analysis.

Financial analysis and management reporting are essential components of the control and financial management functions. Financial analysis refers to the methods used by investors, creditors, and management to assess a healthcare organization's past, present, and future financial performance.



Steps in Financial Analysis

Following are the steps in financial analysis.

Establish the facts about the organization

Compare the facts about the organization over time

Use perspective judgment for making decisions

Healthcare Financial Statement

Healthcare Financial Statement.

The financial statements of a company reveal its financial health. Financial statements show how an organization's operations are performing and provide useful information about its assets, liabilities, revenues, and expenses. Decision-makers use this data to track performance and determine the best strategies, investments, and changes to make in order to maintain growth. Owners, shareholders, and others with a financial stake in the company use it to keep track of their investments.



Key Financial Statements

Following are the key financial statements.



1. Balance Sheet

Balance Sheet.

The balance sheet shows the organization's financial position at a specific point in time, typically at the end of an accounting period. The balance sheet presents the organization's assets, liabilities, and net assets and its relationships, which are reflected in the accounting equation. When Liabilities are added to Net Assets we get total assets. The balance sheet equation shows that the value of the assets of the facility should be equivalent to the total of the liabilities plus equities of the shareholders.



Balance Sheet Structure -1

Assets are economic resources that provide the organization with expected benefit. Economic resources with a life of less than a year are known as current assets.

On the balance sheet, current assets are listed in order of liquidity which includes the following.



Balance Sheet Structure -2

Liabilities are economic obligations, or debts, of the organization.
Current liabilities are economic obligations, or debts, that are due within one year which includes the following.



Balance Sheet Structure -3

Shareholders' equity.

Shareholders' equity is the difference between assets and liabilities of the healthcare organizations. It represents the ownership interest of stockholders in the organization. Shareholders' equity is also called stockholders' equity, owners' equity, or net worth and comprises common stock and retained earnings.

Common stock is money invested in the organization by its owners.
Retained earnings result from income earned by the organization from operations minus dividends.

2. Profit And Loss Account

Profit And Loss Account.

The balance sheet shows the position of a company at a fixed point of time, the **income statement** shows all revenues and gains earned, as well as all associated expenses and losses over a period of time usually a year or some portion of a year.

Subtracting expenses from revenues shows the net income or loss for that accounting period.

The Income Statement: $Net\ Income = Revenues - Expenses$

Profit and Loss Account Structure - 1

Profit and loss account format:

	2017	2016
REVENUES		
Gross patient services revenue (non-GAAP)	\$13,031	\$12,610
Provision for contractual adjustments (non-GAAP)	-4,209	-4,083
Provision for charity care (non-GAAP)	-420	-408
Net patient services revenue	8,402	8,119
Provision for bad debt allowance	-600	-4,763
Net patient services revenue less provisions for bad debt	7,802	7,643
Premium revenue	400	0
Other operating revenue	440	447
Total operating revenue	\$ 8,642	\$ 8,090
EXPENSES		
Salaries, wages, and benefits	4,080	5,278
Supplies, drugs, purchased services	3,080	2,956
Depreciation and amortization	471	443
Interest	113	109
Total operating expenses	8,684	8,786
OPERATING INCOME	-2	-696
NON OPERATING INCOME		
Investment income	\$ 95	\$ 85
EXCESS OF REVENUE OVER EXPENSES	93	-611
Unrestricted net assets	3,285	3,896
Temporarily restricted net assets	750	700
Permanently restricted net assets	400	600
CHANGES IN NET ASSETS		
Total changes in net assets	4,435	5,196

Profit and Loss Account Structure - 2

Profit and loss account format:

	2017	2016
REVENUES		
Gross patient services revenue (non-GAAP)	\$13,031	\$12,610
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3. Statement Of Cash Flow

Statement Of Cash Flow.

The cash flow statement is an account of the cash in an organisation, which has gone into it after the expenses in the accounting period have been met.

This Cash Flow analysis offers a trustworthy, valuable outlook for the financial achievement of the hospital.

The main components of the cash flow statement are cash from operating activities, cash from investing activities, and cash from financing activities.

Cash Flow Statement Structure

Cash flow statement format:

Cash Flow Statement	
Big Tex's Mechanical Bull Rentals and Servicing	
Month Ended September 30th, 2019	
Cash Flow from Operations	
Net Income	\$12,000
<i>Additions to Cash</i>	
Depreciation	\$3,000
Increase in Accounts Payable	\$1,000
<i>Subtractions from Cash</i>	
Increase in Accounts Receivable	(\$8,000)
Increase in Inventory	(\$7,000)
Net cash from Operations	\$1,000
Cash Flow from Investing	
Purchase of equipment	(\$2,000)
Cash Flow from Financing	
Notes payable	\$2,000
Cash Flow at September 30th, 2019	\$1,000

Financial Ratios in Health Care Organizations

Financial Ratios in Health Care Organizations.

The healthcare market is one of the largest in a number of industries including hospitals and medical equipment.

The tracking and analysis of financial ratios for health organizations is a critical practice. The ratios show the movements in operating costs; they help with cash flow management and provide a good basis for the profitability assessment.



FINANCIAL RATIO

- A **financial ratio** (or **accounting ratio**) is a relative magnitude of two selected numerical values taken from an enterprise's financial statement.

SOURCES OF DATA FOR FINANCIAL RATIOS

- Balance Sheet
- Income Statement
- Statement of Cash Flow
- Statement of Retained Earnings

PURPOSE AND TYPES OF RATIOS

- Liquidity ratios
- Asset turnover ratios
- Financial leverage ratios
- Profitability ratios
- Dividend policy ratios

PURPOSE AND TYPES OF RATIOS 1

Financial ratios allow for comparisons

- Between companies
- Between industries
- Between different time periods for one company
- Between a single company and its industry average

LIQUIDITY RATIOS

Provides information about a firm's ability to meet its short-term financial obligations.

$$\text{CURRENT RATIO} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{QUICK RATIO} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\text{CASH RATIO} = \frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

ASSET TURNOVER RATIO

Indicates of how efficiently the firm utilizes its asset.

$$\text{RECEIVABLE TURNOVER} = \frac{\text{Annual Credit Sales}}{\text{Accounts Receivable}}$$

$$\text{AVERAGE COLLECTION PERIOD} = \frac{\text{Accounts Receivable}}{\text{Annual Credit Sales} / 365}$$

$$\text{AVERAGE COLLECTION PERIOD} = \frac{365}{\text{Receivable Turnover}}$$

ASSET TURNOVER RATIO 2

$$\text{INVENTORY TURNOVER} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{INVENTORY PERIOD} = \frac{\text{Average Inventory}}{\text{Annual Cost of Goods Sold} / 365}$$

$$\text{INVENTORY PERIOD} = \frac{365}{\text{Inventory Turnover}}$$

FINANCIAL LEVERAGE RATIOS

Provide an indication of the long-term solvency of the firm.

$$\text{DEBT RATIO} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

$$\text{DEBT RATIO} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

$$\text{INTEREST COVERAGE} = \frac{\text{EBIT}}{\text{Interest Charges}}$$

PROFITABILITY RATIO

Offer several different measures of the success of the firm at generating profits.

Gross Profit Margin is a measure of the gross profit earned on sales.

$$\text{GROSS PROFIT MARGIN} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}}$$

PROFITABILITY RATIO 2

Return on Assets is a measure of how effectively the firm's assets are being used to generate profits.

$$\text{RETURN ON ASSETS} = \frac{\text{Net Income}}{\text{Total Assets}}$$

PROFITABILITY RATIO 3

Return on Equity is the bottom line in measure for the shareholder profits earned for each dollar invested in the firm's stock.

$$\text{RETURN ON EQUITY} = \frac{\text{Net Income}}{\text{Shareholder Equity}}$$

DIVIDEND POLICY RATIO

Provide insight into the dividend policy of the firm and the prospects for future growth.

$$\text{DIVIDEND YIELD} = \frac{\text{Dividends Per Share}}{\text{Share Price}}$$

$$\text{PAYOUT RATIO} = \frac{\text{Dividends Per Share}}{\text{Earnings Per Share}}$$

CAPITAL BUDGETING RATIO

- Net present value
- Profitability index
- Internal rate of return
- Modified internal rate of return
- Equivalent annuity

USE AND LIMITATIONS OF FINANCIAL RATIO

1. A reference point is needed
2. Most ratios by themselves are not highly meaningful
3. Year-end values may not be representative
4. Ratios are subjects to the limitations of accounting methods

Healthcare Benchmarking

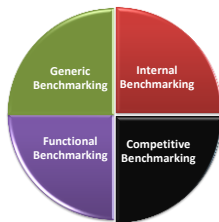
Healthcare Benchmarking.

Benchmarking is a term that refers to a rule or guideline that can be used to measure or judge others. It serves as a benchmark against which an evaluation can be made. Benchmarking in healthcare is the process of comparing a given organization's performance metrics to a standard developed using data from other similar organizations. Since around nineteen eighty five, the practice has been used in healthcare.



Types Of Healthcare Benchmarking- 1

Following are the types of healthcare benchmarking.



Types Of Healthcare Benchmarking- 2

Following are the types of healthcare benchmarking.

Internal Benchmarking

- Within the same hospital or clinic, internal benchmarking takes place between departments, divisions, or offices.

Competitive Benchmarking

- It occurs when a company examines another company's process or similar service and compares their goals and outcomes to those of the other company.

Types Of Healthcare Benchmarking- 3

Following are the types of healthcare benchmarking.

Functional Benchmarking

- It compares an organization to others in the same industry who may use a similar metric or process from which it can learn.

Generic Benchmarking

- The goal of generic benchmarks is to encourage new ways of thinking in the healthcare industry.

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Thank you.
