

Accounting Fundamentals for Health Care Management

FOURTH EDITION

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In memory of Joe and Shirley Finkler and Marilyn Ward.
To Leonard and Dorothy Calabrese
and Howard Ward.

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Preface

The complexity of today's healthcare system and the seemingly constant change in national health policy have brought with them a need for all managers and executives to have a solid understanding of accounting. This text is geared toward the student or current health care manager who requires a basic grounding in financial accounting and analysis within health care organizations. It is presented from the basic premise that knowledge of accounting is beneficial, regardless of a person's primary focus within the health care system. The operating room nurse, the compliance officer, the physician practice manager, and the pharmaceutical sales representative can all benefit from a better understanding of health care accounting and financial analysis.

This text will not make anyone a chief financial officer. It will, however, provide the vocabulary and an introduction to the tools and concepts employed by finance officers. It will help the non-financial manager assess financial information, ask the appropriate questions, and understand jargon-laden answers. It will also assist board members in these same tasks, providing stronger oversight and accountability.

To help enable the use of this text within the framework of a health care accounting course,

there are homework questions and problems at the end of each chapter. Instructors can gain access to the solutions, PowerPoint lecture slides, and other instructor materials online. We have attempted to cover the material in a thorough, yet not overwhelming, manner. However, we recognize that there is always room for improvement. Readers are encouraged to email Thad Calabrese directly to point out errors or unclear passages or to suggest additional applications or other improvements. All contributions will be acknowledged in the next edition. Any corrections to errors in the text will also be posted on the webpage.

The authors wish to thank Sophie Teague, Tess Sackmann, Maria Leon Maimone, and John Coakley at Jones & Bartlett Learning for all their help in bringing this book from conception to reality.

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The accompanying eBook for this text contains Excel templates designed to help the reader use various tools illustrated in the text. To access the templates, please redeem the access code found at the front of the text.



About the Authors

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He received a BS with joint majors in finance and accounting (*summa cum laude*) and a MS in accounting (with highest honors) from the Wharton School at the University of Pennsylvania. His MA in economics and PhD in business administration were awarded by Stanford University.

Dr. Finkler has published 31 books, among them *Essentials of Cost Accounting for Health Care Organizations*, 3rd Ed. (with David Ward and Judith Baker); *Financial Management for Public, Health, and Not-for-Profit Organizations*, 7th Ed. (with Daniel Smith, and Thad Calabrese); *Budgeting Concepts for Nurse Managers*, 4th Ed. (with Mary McHugh); and *Finance & Accounting for Nonfinancial Managers*, 5th Ed. He has published more than 200 articles in many journals, including *Hospitals and Health Services Administration*, *Health Care Financial Management*, *Health Care Management Review*, *Health Services Research*, and *The New England Journal of Medicine*.

Dr. Finkler is the former editor of *Hospital Cost Management and Accounting* and has served on the editorial boards of *Health Services Research*, *Health Care Management Review*, and *Research in Health Care Financial Management*. He was a national advisory council member at the National Institutes of Health (NIH) for 4 years and is also a past member of the Executive Committee of

the International Society for Research in Health Care Financial Management. He was a member of the Board of Governors of Daughters of Israel Geriatric Center from 2004–2011 and served as the treasurer of that organization for 4 years.

Thad D. Calabrese, PhD Dr. Calabrese is a professor at the Robert F Wagner Graduate School of Public Service at New York University and directs the finance specialization. He is also affiliated with the College for Global Public Health at New York University. His teaching focuses on the financial management for not-for-profit organizations, governments, and health care organizations. Prior to entering academia, Dr. Calabrese worked as a financial consultant with nonprofit organizations, as well as in the revenue forecasting unit of the New York City Office of Management and Budget.

Dr. Calabrese's research has been published in the *Journal of Accounting and Public Policy*, *National Tax Journal*, *Public Budgeting and Finance*, *Public Administration Review*, *Nonprofit and Voluntary Sector Quarterly*, and the *Journal of Public Budgeting, Accounting, and Financial Management*, among others. He currently serves as an associate editor for *Nonprofit and Voluntary Sector Quarterly*, and also currently serves on the editorial boards of *Nonprofit Management & Leadership*, *Public Budgeting & Finance*, and the *Journal of Public Administration Research and Theory*. Dr. Calabrese previously served as the chair for the Association for Budgeting and Financial Management and also as the Treasurer for the Association for Research on Nonprofit and Voluntary Action.

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Dr. Ward received a BA in political science and sociology from Colgate University. He then went on to receive his MS and PhD in public administration from the Wagner Graduate School of Public Service at New York University.

Dr. Ward's teaching activities include financial management, health care accounting,

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New to This Edition

For many years, the Patient Protection and Affordable Care Act (PPACA) was the political target of some politicians in the federal government. However, it is now clear that the PPACA will not be fully repealed; while aspects of the program will no doubt remain in flux, the text now reflects that the uncertainty around this law is much lower than when the *Third Edition* was published.

The Financial Accounting Standards Board altered how discounts should be accounted for in health care organizations. Accounting Standards Codification 606 excludes from revenues discounts that are explicit between payer and provider. Uncollectible amounts are also excluded and are now referred to as implicit price concessions. Bad debt expenses now only refer to those uncollectible amounts that were not anticipated. These updates are included throughout the text, but most notably in Chapters 3 and 7. We removed the language in Chapter 4 that referred to international financial reporting standards because it seems increasingly unlikely that convergence between US and international standards will occur.

Users of this text will find the most significant change to be an expansion in the number of end-of-chapter problems in the text as well as

additional Test Bank questions. We thank Blair Williams, who generously contributed many problems to the text, and Mahima Sharda, who wrote many for the Test Bank. We have also included more Excel-based problems as the role of spreadsheet programs in accounting and finance continues to increase in importance. The intent of this change was to provide users of the text with additional exercises and practice related to the concepts discussed in the text. Because we recognize that many students will not be finance experts, we opted to make the text and ancillaries include more opportunities to practice.

Additionally, in this *Fourth Edition*, many general updates have been made. All examples throughout the book have been updated. Minor changes have been made throughout all chapters to improve clarity. All Excel templates have been updated.

We believe that the many changes made throughout this edition will significantly enhance the reader's learning experience.

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