

THIRD EDITION

Accounting Fundamentals

for Health Care Management

Steven A. Finkler, PhD, CPA

Professor Emeritus of Public and Health Administration, Accounting,
and Financial Management

The Robert F. Wagner Graduate School of Public Service
New York University
New York, New York

Thad D. Calabrese, PhD

Associate Professor of Public and Nonprofit Financial Management

The Robert F. Wagner Graduate School of Public Service
New York University
New York, New York

David M. Ward, PhD

Provost and Vice Chancellor for Academic Affairs

The University of North Carolina at Pembroke
Pembroke, North Carolina



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World Headquarters
Jones & Bartlett Learning
5 Wall Street
Burlington, MA 01803
978-443-5000
info@jblearning.com
www.jblearning.com

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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 health care 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 book is geared toward the student or current health care manager who needs 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.

This book will not make anyone a chief financial officer. It will, however, provide the vocabulary and introduction to the tools and concepts employed by finance officers. It will help the nonfinancial 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 book 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 class notes, 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 us 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 Michael Brown, Danielle Bessette, Robert Boder, and Juna Abrams at Jones & Bartlett Learning for all their help in bringing this book from conception to reality.

—**Steven A. Finkler** steven.finkler@nyu.edu

—**Thad D. Calabrese** thad.calabrese@nyu.edu

—**David M. Ward** david.ward@uncp.edu

The website for this book contains Excel templates available for download. These templates have been designed to help the reader use various tools illustrated in the text of this book. To access the templates, please redeem the access code found at the front of the book.

About the Authors

Steven A. Finkler, PhD, CPA

Dr. Finkler is Professor Emeritus of Public and Health Administration, Accounting, and Financial Management at New York University's Wagner Graduate School of Public Service. He served as Director of the Specialization in Health Care Financial Management at Wagner for more than 20 years. An award-winning teacher and author, Dr. Finkler, who is also a CPA, worked for several years as an auditor with Ernst and Young and was on the faculty at the Wharton School before joining NYU. He currently teaches courses for the American Association for Physician Leadership.

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 24 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, 5th Ed.* (with Daniel Smith, Thad Calabrese, and Robert Purtell); *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 four 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 four years.

Thad D. Calabrese, PhD

Dr. Calabrese is an Associate Professor at the Robert F. Wagner Graduate School of Public Service at New York University and is also affiliated with the College for Global Public Health. 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 non-profit 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 on the editorial board of *Nonprofit*

Management & Leadership. Dr. Calabrese previously served on the Executive Committee for the Association for Budgeting and Financial Management and is currently the Vice Chair, and also currently serves as the Treasurer for the Association for Research on Nonprofit and Voluntary Action.

David M. Ward, PhD

Dr. Ward is Provost and Vice Chancellor for Academic Affairs at the University of North Carolina at Pembroke (UNCP). At UNCP Dr. Ward oversees 41 undergraduate programs and 17 graduate programs offered through five colleges. Dr. Ward's academic career includes a variety of administrative and faculty positions at Armstrong State University, the University of New England, and the Medical University of South Carolina.

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, and applied research methods. Dr. Ward's research activities have focused on the use of cost-effectiveness analysis and linear programming for increasing the efficiency of health care spending. Dr. Ward has numerous peer-reviewed publications in journals such as *Health Care Financing Review*, *Public Budgeting and Financial Management*, and the *American Journal of Public Health*. Dr. Ward is a coauthor of one other book, *Essentials of Cost Accounting for Health Care Organizations, 3rd Ed.* (with Steven Finkler and Judith Baker).

New to This Edition

In 2010, the Patient Protection and Affordable Care Act (PPACA) became law and was implemented. A discussion of the law and some of its financial considerations for health care organizations has been expanded in Chapter 3, which discusses the financial environment of health care organizations. When the second edition was published, many of the PPACA elements were not entirely clear, and it was uncertain how they would play once implemented. We expanded the discussion of the health insurance market reforms that came from this major piece of legislation. At the time of this edition's writing, reforms to the PPACA are still unknown; we have not attempted to forecast this policy uncertainty, choosing instead to focus on the law as it currently stands.

The Financial Accounting Standards Board significantly altered reporting for not-for-profit entities, beginning in 2018. Specifically, donor-restricted contributions and net assets are now all classified as “with donor restrictions,” rather than as “temporarily” or “permanently” restricted. Resources formerly termed “unrestricted” are now termed “without donor restrictions.” The examples throughout

this text, the templates, and the problems all reflect this change in financial reporting.

We switched the order of Chapters 15 and 16, so that investment analysis comes before working capital management. The primary reason for this change was to use the time value of money techniques in determining the rate of return for trade credit rather than the traditional formula that ignores the time dimension. Readers will find this new approach in Chapter 16.

Additionally, in this third 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. Faculty will find that the teaching resources have been updated and expanded.

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

Steven A. Finkler, PhD, CPA

Thad D. Calabrese, PhD

David M. Ward, PhD

