

ACCOUNTING FUNDAMENTALS FOR HEALTH CARE MANAGEMENT

Second Edition

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Dedication

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

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Preface

The complexity of today's health care system has brought with it 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 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, Excel templates that can help the reader use the various tools presented in the book, and other instructor materials online at the book's Companion Website at <http://go.jblearning.com/FinklerResources>. 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 e-mail us 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 web page.

The authors wish to thank Michael Brown, Maro Gartside, Chloe Falivene, and Tracey McCrea at Jones & Bartlett Learning for all their help in bringing this book from conception to reality.

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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. End-of-chapter questions and problems have also been posted to this site. To access the supplemental material for this text, please visit the website:

<http://go.jblearning.com/FinklerResources>.

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 Healthcare 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 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 21 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, 3rd Ed.*; *Budgeting Concepts for Nurse Managers, 4th Ed.* (with Mary McHugh); and *Finance & Accounting for Nonfinancial Managers, 4th Ed.* He has published more than 200 articles in many journals, including *Hospitals and Health Services Administration*, *Healthcare 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 Healthcare 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 Healthcare 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.

David M. Ward, PhD

Dr. Ward is Dean of the Westbrook College of Health Professions at the University of New England. The Westbrook College of Health Professions at UNE is home to nine academic programs. Prior to joining UNE, Dr. Ward was the Associate Dean for Academic and Student Affairs and Professor of Health Administration and Policy at the Medical University

of South Carolina. In addition, while at the Medical University of South Carolina, Dr. Ward served as Chairman of the Department of Health Administration and Policy.

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, healthcare 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).

Thad D. Calabrese, PhD

Dr. Calabrese is an Assistant Professor in the School of Public Affairs at Baruch College—CUNY and is also affiliated with the Center for Nonprofit Strategy and Management. His teaching focuses on financial management for both not-for-profit organizations and governments. 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.

Some of Dr. Calabrese's research results have been published in the *Journal of Accounting and Public Policy*, *Public Budgeting and Finance*, *Public Administration Review*, *Nonprofit and Voluntary Sector Quarterly*, and the *Journal of Public Budgeting, Accounting, and Financial Management*. Dr. Calabrese has also published work with the Society of Actuaries and the Center for Retirement Research at Boston College.

New to This Edition

The first new thing about this Second Edition of *Accounting Fundamentals for Health Care Management* is the addition of a new coauthor, Thad D. Calabrese, PhD. We believe that Dr. Calabrese brings a new perspective felt throughout all chapters of this book.

One of the main new features in this edition is the introduction of a new chapter (Chapter 2) that provides an Excel tutorial. Electronic spreadsheets have become an indispensable part of health care management. All health care managers need to be conversant in either Excel or one of the competing electronic spreadsheet programs. Although some readers may skip this chapter because they are already familiar with Excel, this is essential reading for anyone who is not yet an electronic spreadsheet user.

In 2010, the Patient Protection and Affordable Care Act (PPACA), often referred to as Health Care Reform, became law. A discussion of the law and some of its financial considerations for health care organizations has been added to Chapter 3, which discusses the financial environment of health care organizations.

Over the last several years there has been a strong movement toward developing a unified global set of accounting standards, called the International Financial Reporting Standards (IFRS). The motivation for this movement, the progress to date, and some of the implications for health care management are discussed in various places throughout the book.

A weakness in the first edition of this book is that we did not explicitly discuss the distinction between the cash basis of accounting and the accrual basis of accounting. This is an important conceptual issue, and that shortcoming of the first edition has been corrected in this second edition.

Some argue that a major cause of the subprime crisis of 2008 was “fair value” or “mark-to-market” accounting. A discussion of fair value accounting has been added to this edition to provide readers a better understanding of this conceptual issue.

After careful review, the authors have decided that our discussion of the IRS’ Modified Accelerated Cost Recovery System (MACRS) depreciation approach was too complex. This discussion has been retained, but significantly simplified.

In this “post-Madoff” era, we would be remiss if we did not address the need for organizations to be ethical and operate in an environment that reduces the chances of fraud occurring. We have added discussion regarding the Sarbanes-Oxley Act (SOX) and the COSO Opinion to address this concern.

Additionally, in this second 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. Also, the Test Your Knowledge section at the end of each chapter has been substantially expanded with the addition of many new discussion questions and homework problems. 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.

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