How Financial Statements Affect the Institutional Structure

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Memo

Just like the physical infrastructure, the institutional structure affects the way that the financial statements are prepared. The main effect is seen in the content of the various financial statements. One of the institutional factors affecting the reporting framework includes the culture of the organization. If the culture of a firm dictates a certain way of preparing financial statements, then the employees tend to apply the same method with less criticism. Also, the reporting policies made by the organization's leadership affect the way the reports are made, as well as the content included in the financial statements.

The financial data is assembled based on its nature. In this case, data from the same source is placed in the same financial statement. Transactions that are similar to each other are placed in the same financial statement. Also, transactions that take place at the same time may be placed in the same financial statement if they are the same and in different statements if they are different in nature. For instance, all the purchases are placed in the income statement. All the expenses and incomes are placed in the income statement. On the other hand, all the assets and liabilities are placed on the balance sheet to illustrate their balance at the end of the reporting period. Companies use various forms of financial statements. The two main ones are the balance sheet and the income statement. In addition, companies also use statements of changes in equity to illustrate changes in the value of shareholders' equity. The balanced scorecard is used by the firm to determine how effective the organization has been in attaining the set objectives. Therefore, it is a comparison of the goals attained versus the strategic goals planned at the beginning to determine the successes and failures of the strategies applied.

Income Statement

The income statement represents all the expenses and incomes that the hospital gets over the stated period of time. In this case, the hospital's expenses include depreciation, salaries, rent, electricity, and other expenses. On the other hand, the incomes include payments by the patients, grants from the well-wishers, contributions from the government, and income from other investments. For the health care facility to perform well, the income level needs to be above the expenses. In the case

under consideration, the incomes surpass the expenses, indicating a surplus. This means that the healthcare facility does well in that it minimizes costs. However, the main aim of the hospital is to offer quality services at the minimum costs. Therefore, there needs to be an inclusion of the quality factor before deciding to cut down the costs involved maximally.

Balance Sheet

The balance sheet indicates the firm's various assets, liabilities, and equity factors. In this case, the firm under consideration is a hospital. Therefore, shares are not involved. The balance sheet maintains a record of the worth of the organization. It, therefore, determines the value of the shareholders. The value of the assets ought to be the same as the total of the liabilities and the equity factor (Wilson 2015). The organization ought to have more assets than liabilities to retain its viability and continue being in business. If the liabilities surpass the assets, the firm could be declared bankrupt and, therefore, not fit to continue with the rest of the business.

Changes in Equity Statement

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Changes in equity elaborate the difference between the value of the firm at the beginning and the value at the end. In this regard, a comparison of the equity at the end with the beginning-of-period figure is made. This, therefore, compares and accumulates all the profits carried forward with the profit made during the year and, therefore, gets the end-of-reporting-period profit. Equity is referred to as the value of the shareholders (Wilson 2015). This is because it is the amount that they can share as their gain. The statement, therefore, determines if the healthcare facility is making progress or a loss.

Balanced Scorecard

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A balanced scorecard determines the progress of the firm. In this case, it is a comparison between the set objectives and goals and the real results attained. Therefore, the statement compares the two different figures to determine how well the planned objectives have been attained. The various aspects that can be assessed include the number of patients accommodated over time as well as the level of revenue attained. In addition, the level of patients' complaints could be determined to see if there was an improvement over the period (Wilson 2015). Therefore, this statement concentrates more on determining the attainment of the qualitative objectives, though with the inclusion of the statistical data.

Every statement has its purpose. Each of the statements is categorized based on its need and the form of information it presents. Therefore, they all serve different but related functions. They are all aimed at determining the progress made by the healthcare facility and thus offer guidance in better decision-making.

References

Wilson, J. H. (2015). *American Business and Foreign Policy: 1920–1933*. University Press of Kentucky. Retrieved from https://www.aba.com