

**Healthcare Accounting**

Name:

Institution:

Course Title:

Assignment Name:

Instructor:

Date:

## **Healthcare Accounting**

### **Part 1**

From the videos, several key points stand out regarding the importance of understanding accounting methods. Firstly, the structured approach of accounting provides a way to record, summarize, and report financial transactions which helps in tracking the financial health of an organization. Secondly, income statements, cash flow statements, and other financial statements provide a comprehensive overview of the financial position, cash flows, and performance of an organization which allows managers to make informed decisions about cost management. Lastly, the videos emphasize the significance of accuracy and consistency in financial reporting which ensures that financial statements are comparable and reliable over time.

For non-accounting employees, adhering to established accounting principles is vital for enhancing employees' ability to contribute to financial discussions and decision-making processes. For instance, a healthcare manager who knows the basics of accounting can better understand and explain budget variances to the leadership team. It is important because when non-accounting employees understand financial statements, it not only fosters better collaboration between them but also leads to more cohesive and strategic planning. To ensure that the organization has the necessary funds for projects, a department head who better understands the cash flows can work with the finance team is a substantial example.

### **Part 2**

The "debt-to-asset ratio" calculator evaluates the proportion of the assets of a company financed by debt as a low ratio indicates a healthier financial position and a high ratio suggests higher financial risk to the organization (Sparrow, 2008). Analyzing the ratio and the end results,

I would assess the financial stability of the department. This not only would help me make informed decisions about debt management but also help me in future investments in the organization.

Using this debt-to-asset ratio, a healthcare leadership team can evaluate the financial health of the department of the organization. For instance, if the ratio is high, it may indicate the dire need to seek additional funding sources for the department to ensure the sustainability and reliability of the organization.

In case of high debt levels or other weaknesses, I would recommend actions like increasing revenue through new partnerships or services or negotiating debt terms with the lenders.

In terms of personal finances, this ratio can help manage debt levels ensuring long-term financial stability while reducing financial stress. For example, if my debt-to-asset ratio is high, I might focus on avoiding new debts for a certain period of time until my financial condition improves. This would help me pay off high-interest debts first which will reduce my financial stress in the long run for the finance department in an organization.

### **Part 3**

There are three significant factors namely opportunity, incentive, and rationalization that primarily drive fraudulent activity in an organization. For an accounting scandal, the opportunity arises from weak internal controls, the incentive arises from financial pressures, and the rationalization factor arises from justifying unethical behavior within the workforce.

The term “fraud” refers to the intentional deception for unauthorized gain. On the other hand, the term “abuse” involves practices that are inconsistent with accepted standards but do not involve any malicious intent.

A notable example of fraud in the history of the U.S. healthcare system is the 1 billion dollars billing fraud scheme at a rural hospital in the United States. The care facility billed for services that were not rendered to the patients leading to significant financial losses which led to severe legal ramifications including criminal charges and fines (Sparrow, 2008).

In this case, fraud happened because internal controls failed due to a lack of “segregation” of duties and poor oversight. Building on the understanding of this accounting scandal, I would recommend implementing robust internal controls like strict supervision and regular audits in order to prevent such fraud in the healthcare system.

#### **Part 4**

Investments in long-term assets like electronic medical record systems and MRI machines that are crucial for enhancing the service quality of a healthcare organization are important for purchasing capital expenditures. For instance, initial costs against the expected benefits such as increased service capacity can be evaluated for cost-benefit analysis. Furthermore, in order to understand the demand for the new services in the healthcare system that are enabled by the capital expenditure. Moreover, identification of the potential risks helps in their mitigation through the risk assessment analysis for the risks associated with the investment.

The cash flow statement is essential for the investment decision analysis or purchasing capital expenditures as it provides insights into the organization’s ability to finance the

investment without compromising other operations. The rationale for this is that investing in capital expenditures of the healthcare organization can enhance the capabilities of an organization which leads to increased revenue streams. This investment also ensures that the healthcare organization stays competitive by adopting advanced technologies and the latest trends. It will also improve operational efficiency.

## References

- Lombardi, M., O'Connor, S. J., Carroll, N., Szychowski, J. M., & Nancy Borkowski, D. B. A. (2021). The relationship of debt ratio and financial performance for large not-for-profit health systems. *Journal of Health Care Finance*.
- Sparrow, M. K. (2008). Fraud in the US health-care system: Exposing the vulnerabilities of automated payments systems. *Social Research: An International Quarterly*, 75(4), 1151–1180.