

PREFACE

Accounting is an essential service activity found in all economic entities and organizations, regardless of type or size. Accounting is generally divided into two major fields: financial accounting and managerial accounting. The primary purpose of financial accounting is to provide useful financial information, generally historical in nature, about an organization's financial activities and affairs. This information is intended to be used for purposes of intelligent decision making by interested external groups, such as investors, creditors, other resource providers, governmental agencies, and the general public. The primary purpose of managerial accounting is to provide useful financial information, generally current or prospective in nature, to internal users to improve management decision making. Because such decisions directly affect the manner in which limited resources are allocated and employed in our economy, the information generated by the accounting process plays a significant role in determining the types and quantities of products and services that are produced and consumed. With this in mind, the recording and reporting of adequate and reliable financial information relevant to users' needs clearly must be viewed as a function of extreme importance in our economic system.

The economic entity with which this book is specifically concerned is the hospital, organized and operated on a not-for-profit basis. This emphasis on accounting as related to the hospital organization in particular seems warranted because, although the basic principles of accounting are substantially the same for all types of organizations, not-for-profit hospitals have many unique characteristics that require specialized applications of accounting principles and procedures. In addition, the healthcare business has grown to have massive economic and social significance, demanding an increasingly higher order of accounting and financial reporting practices. It seems reasonable to assume that this requirement will be realized most effectively and quickly through educational materials and programs dealing specifically with the particular accounting and financial reporting problems of hospitals and other healthcare entities. Healthcare organizations of all types can benefit greatly from the use of time-proven accounting techniques, reporting practices, and business methods that have been developed by commercial organizations. It also should be noted that, although this book is focused largely on hospitals, the principles and practices described generally are applicable to most other entities comprising the healthcare industry.

In seeking solutions to the serious problems being encountered currently in the provision of high-quality healthcare at reasonable costs, hospital managers and other interested groups are more heavily dependent than ever before on the information provided by highly sophisticated accounting systems. The effectiveness of hospital managers at all levels is directly related to the quality of the information developed by accountants, including business office personnel engaged in the least glamorous bookkeeping tasks. A similar dependency on, and need for, more and better financial information about hospitals also exists with respect to third-party payers, lending institutions, federal and state agencies, and other external groups.

Your interest in hospital accounting may arise from a desire to become a hospital accountant or auditor, or from a need to increase your capabilities in these areas. On the other hand, you may be preparing yourself for a career in hospital administration as a non-accounting executive, recognizing that your preparation would not be adequate or complete without a study of accounting principles. In each case, this book is intended to serve as an introductory course emphasizing the methodology of hospital accounting but also providing an understanding of the meaning and managerial uses of accounting information. The broad coverage of subjects enables this book to be used as a complete course for those having no interest in an accounting career. The depth of coverage, however, is sufficient to permit others to continue their accounting education at an intermediate level.