



## Transition Guide

### *Healthcare Finance: An Introduction to Accounting and Financial Management, Sixth Edition*

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*Healthcare Finance: An Introduction to Accounting and Financial Management, Sixth Edition*, covers the essential concepts of both accounting and financial management. Through clear explanations, numerous examples, and realistic practice problems, it arms future managers with the grounding they need to make financially sound decisions for their healthcare organizations.

This thoroughly updated edition provides more emphasis on the unique marketplace for healthcare services and additional examples from nonhospital settings, including medical practices, clinics, home health agencies, nursing homes, and managed care organizations. Particular content changes include:

- Expanded discussion of health insurance, reimbursement methodologies, and the impact of healthcare reform on provider behavior
- A new presentation of managerial accounting material that follows a more logical progression of concepts, emphasizing the level of analysis (organization, department, service) rather than techniques
- Coverage of three service-line costing methods: cost-to-charge ratio, relative value unit, and activity-based costing. Plus, an introduction to time-driven activity-based costing, a method for costing at the patient level
- Updated financial accounting formats that conform to the latest American Institute of Certified Public Accountants guidance
- Increased coverage of the revenue cycle

## Changes in the Sixth Edition

Since the publication of the fifth edition of this book, we have used it numerous times in various settings. The feedback of students, other professors, and the marketplace in general has been tremendously positive—every comment received indicates that the basic concept of the book is solid. Even so, nothing is perfect, and the healthcare environment is ever-changing. Thus, many changes have been made to the book; the most important of which are listed below. These changes improve the quality and value of the book without affecting its basic concept and approach to learning.

First and foremost, this edition was coauthored by Kristin L. Reiter, an associate professor at the University of North Carolina at Chapel Hill. Kristin, who worked as a senior accountant and auditor before joining academe, brings a wealth of accounting knowledge and experience to the book that will have an immediate impact. In addition, Kristin's teaching and research endeavors brings new insights to the book's content and pedagogy that, over time, will have a profound and positive influence.

## Updated, Reorganized, and Relocated Material

The contents of Chapters 1 and 2 have been reorganized to focus exclusively on issues of greatest relevance to healthcare finance. For example, Chapter 2 is now fully devoted to health insurance and reimbursement methodologies. Also, coverage of healthcare reform is significantly expanded.

The managerial accounting chapters (chapters 5-8) have been reorganized to create a more logical progression of concepts. Although much of the material is the same, the approach is different. Now, instead of focusing on techniques, the emphasis is on the level of analysis: first organizational costing, then departmental costing, and finally service line costing. Furthermore, coverage of service line costing is significantly expanded to include four methods: cost-to-charge ratio (CCR), relative value unit (RVU), activity-based costing (ABC), and time-driven activity-based costing (TDABC).

Chapter 18 (Lease Financing and Business Valuation) has been removed from the textbook and placed online. This material, although important to the financial staff, is not of prime relevance to most student users of this book. In addition, Chapter 19 (Distributions to Owners: Bonuses, Dividends, and Repurchases) is now available online.

Some sections of the text, considered nonessential, have been moved from within the chapter to the very end of the chapter in sections called *Chapter Supplements*. For example, sections on lesser-used Medicare payment methods, service decisions (contract analysis), and securities market regulation were placed in supplements. These sections are both noncritical and technical in nature and their new placement allows students to better focus on essential content.

Financial accounting coverage was updated to conform to the latest AICPA formats. Thus, the income statement format now includes both operating income and net income and places the provision for bad debts in the revenue section rather than listing it as an expense. Correspondingly, ratio coverage now includes a more complete discussion of the differences between operating margin and total margin.

## Chapter Format Changes

This edition features a more user-friendly layout and additional end-of-chapter practice problems.

The end-of-chapter problem sets are expanded by two problems per chapter. Users of the book have indicated that textbooks cannot have too many problems.

## Minor Changes

Increased coverage of the revenue cycle; increased use of alternative (non-hospital) settings; increased use of sidebar (boxes) to add interest to the text; elimination of endnotes, with comments of importance placed in the text.

The lecture presentation software is updated and improved based on continual use and suggestions from adopters and students alike.

## Ancillary Materials for Students

Two additional online-only chapters will be available to students at the *Health Administration Press Book Companion* website at [ache.org/books/HCFinance6](http://ache.org/books/HCFinance6).

1. **Chapter 18 (Lease Financing and Business Valuation).**
2. **Chapter 19 (Distributions to Owners: Bonuses, Dividends, and Repurchases).**

### Ancillary Materials for Instructors

In addition to the materials for students, three important teaching aids are available for instructors who adopt this book. Instructor ancillaries are contained in a secure area and available only to adopters of this text. To request access information, email [hapbooks@ache.org](mailto:hapbooks@ache.org).

1. **End-of-Chapter Solutions.** A comprehensive set of solutions to the end-of-chapter questions and problems is available to instructors who can provide them to students if desired.
2. **Test Bank.** An online test bank with approximately 350 multiple-choice questions is available to adopters.
3. **Lecture Presentation Software.** A set of PowerPoint® slides that cover all the essential issues contained in each chapter is also available. Concepts, graphs, tables, lists, and calculations are presented in about 40 slides per chapter. Furthermore, electronic or hard copies of the slides can be provided to students for use as lecture notes. Many instructors will find these slides useful, either as is or customized to best meet the situation at hand.

### The Casebook

In addition to the free ancillaries, many adopters pair this textbook with its accompanying casebook, *Cases in Healthcare Finance*. The most realistic application of healthcare finance occurs in health services organizations, and there is no substitute for on-the-job experience. The next best thing—and the only real option for the classroom—is to use cases to simulate, to the extent possible, the environment in which finance decisions are made. Cases provide students with an opportunity to bridge the gap between learning concepts in a lecture setting and applying them on the job. By working cases, students can be better prepared to deal with the multitude of problems that arise in the practice of healthcare financial management.

*Cases in Healthcare Finance*, 5th edition, contains 32 cases that focus on the practice of healthcare finance, including accounting, in provider organizations. In general, each case addresses a single financial issue, such as a capital investment decision. The uncertainty of the input data, along with the presence of relevant nonfinancial factors, makes each case interesting and challenging. The case settings include a variety of provider organizations, including hospitals, medical practices, integrated delivery systems, and managed care organizations. In addition to cases that focus purely on financial decisions, the casebook contains seven mini-cases that address ethical issues related to healthcare finance. The ethics mini-cases are not quantitative in nature but rather are designed to promote discussion about finance situations that have ethical implications.

In general, cases may be classified as directed or nondirected. *Directed* cases include a specific set of questions that students must answer to complete the case, while *nondirected* cases (as we use the term) contain only general guidance to point students in the right direction. The cases in the casebook are nondirected, because such cases closely simulate how real-world managers confront financial decision making. However, students who stray from the key issues of the cases often do not obtain full value from their effort.

We have found that students with more advanced finance skills gain the most from nondirected cases, while students who have had less finance exposure gain most from directed cases. The online

instructors' material for the casebook contains sets of questions that can be used to convert each of the cases to directed cases. Thus, instructors can use the cases in either way, depending on the experience of the students, the objectives of the course, and the extent to which cases will be used.

Spreadsheet analysis has become extremely important in all aspects of healthcare finance. Students must be given an opportunity to hone computer skills and be allowed, or required, to use spreadsheet programs to assist in financial analyses. Furthermore, spreadsheet models can reduce the amount of "busywork" required to perform the required calculations and hence leave students with more time to focus on financial management issues. Because of these factors, we developed well-structured, user-friendly spreadsheet models for every case to enable students to perform more efficient analyses. In addition, spreadsheet models enable students to easily create graphics and other computer outputs that will enhance the quality of the analyses and any required presentations.

The student version of each case model is complete in that no modeling is required to obtain a base case solution. However, zeros have been entered for all input data, so students must identify and enter the appropriate input values. The model then calculates the base case solution automatically. However, the models do not contain risk analyses or other extensions, such as graphics, so students must modify the models as necessary to make them most useful in completing the cases.

*Cases in Healthcare Finance*, Fifth Edition, is discounted 25% when purchased from the Health Administration Press website. Direct your students to [www.ache.org/hap/Cases5E](http://www.ache.org/hap/Cases5E) and ask them to use promo code **COMPANION** at check out to receive their discount.