

PREFACE

The beginnings of *Healthcare Finance: An Introduction to Accounting and Financial Management* trace back more than 20 years. At that time, there was a need to make available material for courses in traditional, nontraditional, and clinician-oriented master of health administration (MHA) programs in which students did not have a formal educational background in finance-related topics. Finance courses in such programs require a book that provides basic information on foundational topics. Furthermore, these courses often are part of programs that contain just one healthcare finance course, so the course must cover both accounting and financial management. Some texts that were published at that time were strong in accounting, and others were strong in financial management. However, none gave equal emphasis to both components of healthcare finance, giving rise to the first edition of this book.

Concept of the Book

The overall concept of this book has not changed since the first edition: to create a textbook that introduces students to the most important principles and applications of healthcare finance, with roughly equal coverage of accounting and financial management. Furthermore, because the book is intended for use primarily in health services administration programs, in which students are trained for professional positions within healthcare provider organizations, its focus is on healthcare finance as it is practiced in such organizations. Thus, the examples in the book are based on such organizations as hospitals, medical practices, clinics, home health agencies, nursing homes, and managed care organizations.

Another consideration in writing the book is that most readers would be seeing the material for the first time, so it is important that the material be explained as clearly and succinctly as possible. We have tried hard to create a book that readers will find user-friendly—one that they will enjoy reading and can learn from on their own. If students don't find a book interesting, understandable, and useful, they won't read it.

The book begins with an introduction to healthcare finance and a description of the current financial environment in which providers operate,

with emphasis on health system design, healthcare insurance, and reimbursement methodologies. From there, it takes students through the basics of financial and managerial accounting. Here, our goal is not to turn generalist managers into accountants but to present those accounting concepts that are most critical to managerial decision-making. The book then discusses the foundations of financial management and demonstrates how healthcare managers can apply financial management principles to help make better decisions—where *better* is defined as decisions that promote the financial well-being of the organization.

Relationship to Other Books

***Gapenski's Understanding Healthcare Financial Management (UHFM)* (authored by George H. Pink and Paula H. Song)**

UHFM is very similar to a traditional corporate finance text, except that it focuses on the financial management of health services organizations. It does not include explicit accounting content that typically is taught in managerial and financial accounting courses, so *UHFM* assumes that students have some familiarity with financial statements and other basic accounting concepts. The book includes a great deal of theory, but the emphasis is on using the theory, as well as the concepts and tools, to make managerial decisions that maximize financial, and hence mission, performance.

The book is designed primarily for use in graduate-level courses for students who have already had exposure to accounting and financial management courses. It can be used for other student clienteles, but the absence of explicit accounting content, the amount of theory, and the nature of the ancillaries make the book most suitable for MHA and MBA (healthcare concentration) students. Also, because *UHFM* is designed to provide students with a higher level of cognition according to Bloom's Taxonomy, the end-of-chapter problems are provided on spreadsheets rather than printed in the textbook. Finally, student comprehension is maximized when *UHFM* is paired with cases—specifically, those contained in *Gapenski's Cases in Healthcare Finance* (see below).

***Gapenski's Fundamentals of Healthcare Finance (FHF)* (authored by Kristin L. Reiter and Paula H. Song)**

FHF differs from *Healthcare Finance* in that it focuses primarily on financial decisions made at the clinical department level, so it includes only limited content related to decisions made by the financial staff—for example, decisions about organizational financing and capital structure. Because it focuses

on the accounting and financial management concepts and decisions that are most relevant to clinical managers, it is shorter than *Healthcare Finance*.

The book is designed primarily for use in undergraduate-level courses for health science or health services management students and for undergraduate or graduate courses in clinical programs such as medicine, nursing, and physical or occupational therapy. It is also useful for professional development programs in healthcare finance.

Gapenski's Cases in Healthcare Finance (CHF) (authored by George H. Pink and Paula H. Song)

CHF contains 32 accounting and financial management cases. The cases generally focus on a single decision, such as marginal cost pricing or capital allocation. The casebook has spreadsheet models for most of the cases and questions that instructors can provide to students if they require more structure.

The casebook is designed to provide students with a higher level of cognition through the application of healthcare finance theory, concepts, and tools to “real-world” settings. *CHF* typically is used in conjunction with *UHEM* or *Healthcare Finance* in graduate courses for health services management students, but it can be used with other textbooks and in other settings. The cases are especially appreciated by students with work experience, but the availability of questions permits significant leeway in student clienteles. References have been added to most chapters in *Healthcare Finance* to denote the relevant cases from *CHF*.

Intended Market and Use

Healthcare Finance is not targeted for specific types of educational programs. Rather, it is designed to teach health services management students, in one course, the fundamental concepts of healthcare finance, including both accounting and financial management. Thus, the book can be used in a wide variety of settings: undergraduate and graduate programs, traditional and executive programs, on-campus and distance learning programs, and even independently for professional development.

The key to the book's usefulness is not the educational program but the focus of the course. If the course is a stand-alone course for management students designed to cover both healthcare accounting and financial management, the book will fit. In fact, the book easily can be used across a two-course healthcare finance sequence, especially in modular programs where each course is two credit hours. Typically, such a sequence begins with an accounting course and ends with a financial management course. This book, supplemented by cases (and possibly readings), would work well in such a sequence.

The book should also be useful to practicing healthcare professionals who, for one reason or another, must increase their understanding of healthcare finance. Such professionals include clinicians who have some management responsibilities as well as line managers who now require additional finance skills. As an alternative, *Fundamentals of Healthcare Finance* could be used for this purpose, especially when the readers will remain clinicians as opposed to moving into organizational (corporate) management positions.

Finally, many members of financial staffs, especially those who work exclusively in a single area, such as patient accounts, would benefit from having a broader understanding of healthcare finance principles and would find this book useful.

Changes in the Seventh Edition

Since the publication of the sixth edition of this book, we have used it numerous times in many different settings. In addition, we have received many comments from users at other universities. The reactions of students, other professors, and the marketplace in general have been overwhelmingly positive—every comment received indicates that the basic concept of the book is sound. Even so, nothing is perfect, and the healthcare environment is evolving at a dizzying pace. Thus, many changes have been made to the book, the most important of which are listed here:

- First and foremost, this edition was coauthored by Paula H. Song, associate professor at the University of North Carolina at Chapel Hill. Paula has coauthored several leading textbooks in healthcare finance, including *Gapenski's Understanding Healthcare Financial Management* and *Gapenski's Cases in Healthcare Finance*. She has both research and teaching expertise in financial management and payment systems.
- The contents of chapters 1 and 2 have been reorganized and updated to reflect the current status of healthcare reform. For example, the effects of the Tax Cuts and Jobs Act have been included.
- The financial accounting chapters (3–4) have been reorganized to create a more logical progression of concepts. Chapter 3 now begins with an introduction to financial accounting basics before discussing the income statement and the statement of changes in equity. Chapter 4 focuses on developing students' understanding of the balance sheet and the statement of cash flows. The discussion of the double entry accounting system has been moved out of the chapters into a new supplement to chapter 4. The supplement expands the coverage of the double entry system to include illustrations of journal entries and the

general ledger, T-accounts, and the accounting equation. In addition, the financial accounting chapters have been significantly revised to reflect amendments to the financial accounting conceptual framework and the effects of new revenue recognition and not-for-profit reporting standards on the financial statements of not-for-profit healthcare entities.

- Chapter 10 (Financial Risk and Required Return) has been revised extensively to better differentiate risk measures of realized and expected return distributions, to incorporate actual return data for the calculation of beta, and to lay out more explicitly how the capital asset pricing model is used to make investment decisions.
- Two of the chapter supplements have been removed from the textbook. The chapter 1 supplement on health services settings has been moved online. The chapter 2 supplement discussing lesser used Medicare payment methods has been removed altogether in favor of referring readers to the primary source of the information: the Medicare Payment Advisory Commission's Payment Basics series, which is accessible online.
- Financial calculator solutions to valuation problems have been removed from the textbook, in recognition of the fact that most students now use spreadsheets to conduct financial analyses.
- Finally, the following minor changes to the text have occurred: Coverage of the implications of value-based payment for the revenue cycle has been increased; several new exhibits have been added to illustrate concepts such as step-down cost allocation and variance analysis; end-of-chapter problems have been edited for clarity; and references have been updated to include current literature and examples.

All in all, these changes improve the quality and value of the book without affecting its basic concept and approach to learning.

Acknowledgments

This book reflects the efforts of many people. First and foremost, we would like to thank Mark Covalski of the University of Wisconsin, who made significant contributions to the accounting content when the book was first written. In fact, without his materials, advice, and counsel, the book would not have been born. In addition, Anna McAleer of Arcadia University provided many useful comments for improving both the text and the instructor's manual. Finally, Sara Berney, MHA student at the University of North

Carolina at Chapel Hill, provided critical support in clarifying the text and updating the examples in this edition.

Colleagues, students, and staff at the University of North Carolina at Chapel Hill provided inspirational support, as well as more tangible support, during the development and class testing of the text. Also, the Health Administration Press staff was instrumental in ensuring the quality and usefulness of the book.

Errors in the Book

In spite of the significant effort that has been expended by many individuals on this book, it is safe to say that some errors exist. In an attempt to create the most error-free and useful book possible, we strongly encourage both instructors and students to write or email one of us with comments and suggestions for improving the book. We certainly welcome your input. (Please note that many of the healthcare organizations used as examples in this and previous editions are fictitious. Any similarities in organizational name and characteristics are unintentional.)

Conclusion

In the environment faced by healthcare providers today, good financial decision-making is more important than ever to the economic well-being of the enterprise. Managers of all types and at all levels should be thoroughly grounded in finance principles and applications, but this is easier said than done. We hope that *Healthcare Finance: An Introduction to Accounting and Financial Management* will help you understand the finance problems currently faced by healthcare providers and, more important, that it will provide guidance on how best to solve them.

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Instructor Resources

This book's Instructor Resources include a test bank, presentation PowerPoint slides, solutions to the end-of-chapter questions, and solutions to the end-of-chapter problems.

For the most up-to-date information about this book and its Instructor Resources, go to ache.org/HAP and search for this book's order code (24171).

This book's Instructor Resources are available to instructors who adopt this book for use in their course. For access information, please e-mail hapbooks@ache.org.