
Accounting in Health Care: What You Need to Know

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Health care accounting includes several unique aspects that don't apply to general or business accounting. Health care facilities large and small must deal with the intricacies of layered economic components associated with patient payments, such as private insurance and government-backed programs. These exist alongside traditional and routine accounting processes such as tracking revenue and cash flow.



The ongoing shift of the health care system away from fee-for-service compensation toward value-based reimbursement means that holding providers accountable for cost and quality is more important than ever. Additionally, the growing presence of technological innovations such as data analytics and robust electronic health records (EHRs) can further streamline health care efficiency, which can directly impact a facility's bottom line in several ways, from operational costs to patient billing.

These and other complexities make health care accounting a dynamic, intriguing profession, but it also demands that individuals have a thorough understanding of how accounting in health care works. Doing so will help lay a foundation that can make these complexities significantly more manageable.

What Is Health Care Accounting?

At its core, health care accounting has several similarities to other professional accounting roles. For instance, health care accountants analyze reports, maintain financial records and track cash flow analyses. The fundamental difference between health care accounting

and other types of accounting involves the complex healthcare-associated layers of these functions.

These layers represent multiple parties associated with health care, such as patients, insurance companies, health care providers, pharmaceutical companies, and government agencies. Each of these subsets come with their own accounting and financial nuances, and they sometimes intertwine. Payment tracking, for instance, typically involves tracking money from patients, providers, and insurance companies.

Accounting for Health Care Organizations

Accounting in health care follows generally accepted accounting principles (GAAP). This is the adopted accounting framework of the U.S. Securities and Exchange Commission and the Internal Revenue Service. Accordingly, many basic and advanced concepts of general accounting apply these principles, including but not limited to the following.

ACCRUAL AND CASH ACCOUNTING

The method of accrual accounting is an anticipatory model that enables a business to record revenue and expenses before they are received or paid out. In a care delivery situation, this model will build credits and debits into the system once a facility produces the means of generating a transaction, such as a bill for a hospital visit or prescription.

This method helps health care facilities obtain a more accurate picture of the transactions that may occur within a given time frame, like a quarter or fiscal year. This accuracy is the reason why large health care facilities will use this method in their accounting practice.

Cash accounting, on the other hand, only records revenue and expenses when the transaction has been finalized. It's a simple, straightforward method, and it can be sufficient in certain industries with less complex accounting requirements. However, this method is normally not a good fit for health care facilities because payments can take months to be finalized – and sometimes, they may not ever be finalized.

REPORTING

Like other entities that follow GAAP, health care organizations produce financial reports that indicate their fiscal performance. Relevant audiences for this information include the public, hospital trustees, and senior management.

Details in these reports may include cash flows, balance sheets, statements of operations, and changes in net assets. Tax-exempt hospitals are also required to itemize uncompensated community care benefits such as charity care.

DEPRECIATION

Health care providers are major users of IT infrastructure, capital equipment, and commercial buildings, all of which depreciate over time. As with depreciation accounting

in other sectors, this process involves calculating the cost of the asset in question as well as its useful life.

From there, the asset's depreciation expense will be recorded across each accounting period. Elements such as land appreciation do not appear in depreciation calculations.

In addition to these aspects of GAAP that health care accountants follow, there are numerous healthcare-specific concepts that apply as well. Below are snapshots of some of these concepts.

PAYMENTS AND RECEIVABLES RELATED TO MEDICAL SERVICES

Hospitals can be reimbursed in multiple ways, adding to the complexity of accounting in health care. They might receive capitation, which involves a fixed amount per patient per month/year. In this system, providers receive payment regardless of the services used by a patient but are responsible for all overruns. Alternatively, a provider could be paid per diem (per day) at an amount typically set by the payer, or on a case-by-case basis, for example through Medicare Severity Diagnosis Related Groups (MS-DRGs).

Value-based payments regulated by the Centers for Medicare and Medicaid Services are also an increasingly important revenue consideration for health care providers, especially doctor's offices. Also known as pay for performance or P4P, these payments are alternatives to traditional fee-for-service, which is tied to the number of visits by patients. Pay for performance is also the health care industry's least standardized payment model, something that could saddle health care accountants with an additional challenge.

Notably, when hospitals receive payment from insurers, those funds are usually only a portion of the value of the services rendered, leaving the rest as receivable. It's also common for payers to have their own fee schedules, meaning accountants regularly face the complexity of keeping track of a huge web of different billings, receivables, and allowances.

PAYER MIXES AND CHARGEMASTERS

Most health care providers are paid by a mix of public and private entities. At a large hospital, accountants may recognize revenue from hundreds of different payers. The portion of revenue from each type of payer is critical to hospital profitability.

When it comes to what providers actually charge these payers, transparency is a major concern and one in which accountants are often involved. Some hospitals use a chargemaster, fee-for-service list, or bundled set of payments like MS-DRGs to determine prices. These methods are all complex systems designed to link the financing of services to how they're paid for. An ancillary effect is that patients and the public often don't know what to expect in terms of care costs and may be surprised by practices such as balance billing.

CREDIT BALANCES AND OUTSTANDING CHECKS

A common situation that accountants in health care face are an accumulation of credits in accounts receivable. This happens when the amount collected from payers and/or patients for service is greater than the amount owed. It is easy for all such credits to total millions of dollars.

Writing a check is one response to this credit accumulation. However, providers like hospitals often end up with numerous outstanding checks due to recipients who have died or moved. In some states, funds from such uncollected checks must be turned over to the state government because of unclaimed property laws.

Importance of Health Care Accounting

Every decision made in health care can, and usually does, have an impact on patient health. This extends to health care accounting. The work can often involve finding ways to make a facility's patient care strategies more financially efficient without sacrificing overall care quality. As such, the work of a health care accountant is a crucial component to a health care organization's ultimate goal of providing cost-efficient care that's effective in potentially improving patient outcomes. This component can make health care accounting a uniquely satisfying branch of accounting to explore.

Prepare for a Dynamic Accounting Career

Accounting in health care is more than just crunching numbers. It's about placing a health care facility in the best position possible to provide high-quality, difference-making patient care. Health care accounting is a dynamic and noble career pursuit, and earning a degree from [George Washington University's online Healthcare Master of Business Administration \(HCMBA\)](#) program can be a critical step toward that pursuit.

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[4 Reasons Why Physicians Get Their MBA Degrees](#)

[Political Management of MBA: Which Degree is For You?](#)

[Why We Should Care About Value-based Care](#)

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