

Financial terminology paper – balance sheet essay

[Business](#), [Accounting](#)



Financial Terminology Paper – Balance Sheet A balance sheet is an overview of an organization's financial situation at a particular moment, and is usually performed at regular intervals. The various components of the balance sheet include assets, liabilities, and equity. Equity includes owner's equity or the stockholders equity and is the initial investment and retained earning, which may be reinvested. These assets and liabilities can be further broken down in short-term and long-term ones. Some of the different liabilities include cash accounts, money market and governmental securities. The assets should always be equal to or greater than the liabilities along with the owner's equity. Any object or cash the organization owns which has a monetary value is known as 'assets'. The claims the creditors have from the assets of the business are known as 'liabilities'.

These liabilities are required to ensure that the business is functioning properly (Business Town, 2001). An Organization can understand its financial strength, capabilities and it's weaknesses through the balance sheet. The balance sheet can suggest whether an organization can manage greater amount of resources, revenues, and expenses, in the future. An organization set for expansion should truly consider its balance sheet.

Many organizations do not want to expand, as the balance sheet may not permit. A company could know how much it has received in payment and how much it has to pay to other parties in terms of cash (Business Town, 2001). The process of speeding up and increasing the receivables and the process of handling the debt in a more scientific manner can be discussed only after researching the balance sheet. A time lag due to receiving funds can also be sorted out through the balance sheet (Business Town, 2001). The <https://assignbuster.com/financial-terminology-paper-balance-sheet-essay/>

different types of assets present in the balance sheet include current and long-term assets. Cash is a liquid asset and can be used currently. Any cash that is owed to the Organization by the suppliers, customers or businessman is known as 'accounts receivable'. All assets that can be converted to cash within a year is known as 'current assets'.

The long-term assets include infrastructure, equipments, real estate, etc. Infrastructure, real estate and building are the fixed assets owned by the organization. The price of land cannot reduce, whereas buildings, support systems and equipment would reduce by certain percentage every year. Any debts, obligations or cash owed by the organization to banks, creditors and financing companies within a year is known as the liabilities and the owner's equity.

Accounts payable are short-term debts or obligations that are payable to the banks, creditors and finance companies. Payroll includes the amount the organization has to pay to its employees in terms of wages. Current liabilities are payable within a one year period, whereas long-term liabilities are payable after a one year period (Business Town, 2001). Healthcare is one of the fastest growing sectors and in such a complicated situation, the organization has not only to bear with several of the laws and issues with regulatory bodies, but also the greater amount of financial stress that would be placed on the organization to deliver. Frequently, the third parties and the customers may delay payment of funds to the healthcare Organization, and this could have a serious impact on the business. The operations side

of the healthcare organization including payroll is very high in terms of cash compared to other types of organizations.

One of the greatest problems that healthcare organizations face is to get the receivables from the customers and others (Hyland Financial Group, 2005). Healthcare organizations should be able to increase their spending by about 14 % every year. This may be required to purchase new equipment, increase the patient management system and to upgrade their systems.

Many hospitals in the US are unable to meet this challenge (HFMA, 2004). A healthcare organization should start its capital management by initiating a strategic plan. Both these processes should be held simultaneously, as they are closely related. The healthcare organization should be able to identify certain strategic goals, and according to these strategic goals plan out their financial operations, so that the goals can be achieved. The financial experts of the healthcare Organization should be able to analyze the internal situation and external situation. All opportunities should be studied and the appropriate ones prioritized. According to this, capital can be invested. Certain implementation and performance plans can also be determined.

Once the plan has been initiated, it should be closely monitored at frequent intervals (HFMA, 2004). The balance sheet in a healthcare organization serves various purposes. The capital needs and the cash levels of the organization should be monitored from time to time. Any alternative funding method can also be determined.

A healthcare organization maintaining a balance sheet would ensure that the spending on capital projects are controlled. Besides, the resources in terms of cash could also be planned and allocated for other capital projects. As per the balance sheet, an organization would be able to work on its strategic plan. Legal considerations and market outlooks could also be studied. The future financial goals and growth needs of the Organization can also be studied. Through the balance sheet any financial risk faced by the organization could be determined and efforts to reduce them could be suggested.

The capital needs of the organization could be set in line with the capital sources. Any alternative sources of capital could also be considered by the organization through the working of the balance sheet. The transactions in the balance sheet should be kept simple and clear. All the internal and external process that is affecting the organization should be kept in mind. Capital planning may be a very difficult process for an organization, and hence frequently expert financial advisers who have an idea of the organization's interests and who know the market situation may be required (HFMA, 2004). References: Business Town (2001), Accounting - Basic Accounting Balance Sheets, Retrieved on July 12, 2007, from Business Town. Com Web site: [www. businessstown. com](http://www.businessstown.com) Healthcare Financial Management Association (2004), Strategic Planning, Balance Sheet Management Are Core Competencies In Capital Process, Retrieved on July 12, 2007, from HFMA Web site: [http://www. hfma. org/HFMA/Templates/GeneralPosting. aspx?NRMODE= Published&NRNODEGUID=%7b5A85AD69-E530-4D66-B083-25B9B3719E99%7d&NRORIGINALURL=%2fpublications%2fknow_newsletter](http://www.hfma.org/HFMA/Templates/GeneralPosting.aspx?NRMODE=Published&NRNODEGUID=%7b5A85AD69-E530-4D66-B083-25B9B3719E99%7d&NRORIGINALURL=%2fpublications%2fknow_newsletter)
<https://assignbuster.com/financial-terminology-paper-balance-sheet-essay/>

%2farchives%2f071404%2ehrm&NRCACHEHINT= NoModifyGuest#Hyland
Financial Group (2005), Off Balance Sheet Funding for the Healthcare
Industry, Retrieved on July 12, 2007, from Hyland Financial Group Web site:
<http://www.hylandfin.com/NIHFW> (2002), Finance Management in a
Healthcare Organization, New Delhi: NIHFW Press.