

# Financial management and accounting

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Financial Management and Accounting Accounting refers to the recording, organization, analysis, and communication of an organization's financial information. Financial management, however, defines control of an organization's financial resources through planning and monitoring of the finance application. In this paper, I seek to discuss aspects of financial management and accounting in a healthcare organization's setup – nursing home.

#### Identification of the Type of Organization – Nursing Home

A nursing home refers to a set of “ facilities with three or more beds that routinely provide nursing care services” (Evashwick, 2005, p. 69). Such facilities are licensed under state regulatory bodies with approval of either Medicare or Medicaid, or both of them, and can be a simple facility or a complex one under corporate management. The facility's main purpose is to offer care services to people who cannot maintain sufficient self-care at home, such as the physically challenged, those who are mentally incapacitated and individuals with other forms of disabilities. It, as a result, offers services such as “ personal care” and “ intensive skilled care” with medical supervision (Evashwick, 2005).

#### Sources of Revenues for the Type of Organization

Sources of revenue for nursing homes can be grouped into two categories: private sector financing and public sector financing. “ Private financing” and “ out of pocket” form the major sources of private sector revenues to nursing homes followed by funds from private insurance companies (W. Cleverley, J. Cleverley, & Song, 2010, p. 269). Direct public funding and Medicaid, however, form the major source of nursing homes' revenues from public funds. Medicare follows these. Insurance companies are the identified third party payers in nursing homes' revenues while the other sources are “ privity” parties acting as beneficiaries – direct or indirect owners of the

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facilities (W. Cleverley, J. Cleverley, & Song, 2010). Uses of Financial Information of a Nursing Home and Users of the Financial Information

Financial information has a wide scope of significance to nursing homes. One of its uses in the facilities is the determination of an organization's financial state at a particular time. This is achieved through financial statements such as income and expenditure accounts, receipt and payment accounts and balance sheets. The record keeping role of financial statement also serves the stewardship purpose by showing how the organization's financial resources are used and safeguarded. Financial information is also used to determine the organization's efficiency in management besides evaluation of effectiveness in application of financial resources. These two applications are achievable through ratio analysis of financial statements. Another important application of financial information is evaluation of a nursing home's compliance with its budgets and financial policies (W. Cleverley, J. Cleverley, & Song, 2005). Financial information is also used in forecasting cash flow of the organization. Based on past trends, timely flows of financial resources can be predicted for budgeting and " decision-making" (Banerjee, n. d.).

Users of financial information of a nursing home facility are either internal or external ones. External users are primarily financers and creditors. Financers are parties that supply the organization with finances and require financial information to know how their money is spent, as well as possible needs for further funding. Creditors, however, refer to the organization's credit suppliers or lenders who need the financial information to determine the organization's abilities to meet financial obligations when such obligations become due. Other external users of the financial information include " employees, financial analysts, advisers and regulatory authorities," among

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others (Nikolai, Bazley, & Jones, 2009, p. 6). The facility's managers are the major internal users of financial information. They widely use the information as the basis for planning, " decision-making" and evaluation of processes (Nikolai, Bazley, & Jones, 2009). Goals of Financial Management and Accounting in a Nursing Home Financial management goals include planning of finances, identifying sources of finances and efficient control of available resources to add financial value to an organization (Carroll, 2006).

Accounting, however, has a wider scope of goals in a nursing home facility. One of its goals is the determination of the facility's surplus or deficit from operations. Accounting also aims at establishing a facility's financial status at any specified time. Other goals of accounting include control of operations, evaluation and comparison of processes, on a regular basis and with other facilities, and meeting legal provisions (Bose, 2010). Difference Between Financial Management and Accounting One of the differences between accounting and financial management is that accounting aims at preparing and communicating information for decision making while financial management aims at making decisions from available information.

Accounting results are also applicable to both internal and external parties to an organization while results of financial managements are primarily for internal use (Carroll, 2006). References Banerjee, K. (2010). Financial accounting: Concepts, analysis, methods and uses. New Delhi: PHI Learning Pvt. Ltd. Bose, C. (2010). Advd. Accounting. New Delhi: PHI Learning Pvt. Ltd. Carroll, N. (2006). Financial management for pharmacists: A decision-making approach. Baltimore, MD: Lippincott Williams & Wilkins. Cleverley, W., Cleverley, J., & Song, P. (2010). Essentials of health care finance. Sudbury, MA: Jones & Bartlett Learning. Evashwick, C. (2005). The continuum of long-  
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