

Methods of analysis in health care

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Methods of Analysis in Health Care Methods of Analysis in Health Care There are different methods of analysis used in financial decision making. The three important methods of analysis include horizontal, vertical, and ratio analysis. These will be discussed below and their use in health care situations will be also be elaborated in the paper below.

Horizontal Analysis

Horizontal analysis involves taking into consideration performance of a particular firm over a period of many quarters or years (Warren, 2010). This sort of analysis focuses on how a company performs over many years and time is the most relevant factor through which the performance of a firm is evaluated. Horizontal analysis informs about how different items in the balance sheet and income statement behave in many years. This particular type of analysis reveals how the performance of the firm has been affected over the years due to environmental factors. This analysis is also important information regarding cyclical demand trends and helps understand fluctuations of demand for a firm.

This particular analysis can be used in health care industry to understand reasons of increasing costs over many years. Through this analysis one can know the main areas due to which health care costs is increasing. Horizontal analysis will tell which elements have contributed to the increase in costs and which have remained fairly constant over many years or accounting periods.

Vertical Analysis

Vertical analysis is a form of financial analysis in which elements of financial statements are presented in a percentage form of total elements (Haber, 2004). This type of analysis presents all information of a particular account, <https://assignbuster.com/methods-of-analysis-in-health-care/>

for example liabilities, in percentage form of the total value of that particular account or element. Vertical analysis focuses on proportions and attempts to guide decision making based on how much weight or proportion a particular element in the balance sheet has. Through this analysis, firms can know easily what proportion of a particular asset, like cash or receivables, is present in the total assets of the company. This analysis can guide decision making by highlighting which areas have are important for the firm and which are not.

Vertical analysis can be used in health care by managers to understand the nature of their debt. This analysis can tell managers regarding how much debt is due in the short term and how much is due later.

Ratio Analysis

Ratio analysis involves analyzing different aspects of a business including efficiency, leverage, debt, profitability etc (Siddiqui, 2006). This type of analysis focuses on the relationships between different factors or elements of business. Ratios are useful in evaluating the position of a business in a particular area. Ratios can also be used to compare performance of a firm with other firms and performance over different accounting periods. This is one of the major advantages of ratio analysis.

Health care firms can calculate profitability ratio in order to compare it with other similar businesses. This can let them evaluate their own performance as compared to the industry average. This is one health care situation in which ratio analysis can be used.

References

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