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Financial Statement in Health Care

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Financial Statement in Health Care

Financial evidence plays a crucial role in the administration of healthcare institutions. For instance, financial information is at the center of the decision making process and daily operations. Additionally, the role of the financial statement analysis is to differentiate the preferable distinctiveness of the business side of healthcare, so that we can adopt these benefits. Besides, financial statement analysis also helps in identifying an organization's weak points to manage them properly, by adopting counteractive strategies. Decisions made by healthcare providers can only be effective if they understand financial information. For that reason, this paper aims to discuss financial information and how it is used in healthcare, and assess the use of financial statement analysis as a means to address monetary questions in healthcare.

Health institutions use financial information in different ways. One of the key roles of financial information is that it helps the management to develop appropriate strategies in managing the cost of treatment (Olaussen, 2017). Healthcare entities must come up with cost-effective drugs. They, hence, use financial data to determine what drugs to buy, as well as determine how the drugs they have in store have been utilized, and which drugs are urgently needed. In addition, healthcare organizations use financial information to monitor internal spending. By having a properly documented and reliable financial system, the management can monitor their expenditures and in the end, detect misuse of funds or fraud. Moreover, healthcare organizations use their financial information when settling bills from third-party payers like insurance firms and sometimes the government. Third-party entities are usually aggressive when dealing with hospitals because they are incurring expenses. Besides, growth and expansion are at the core of any organization. Financial information helps the management in making strategic decisions regarding acquisitions of assets, equipment, and facilities. In this manner, healthcare

organizations can manage to make calculated moves in a manner that averts future disappointments. At the same time, health facilities use financial data to manage their working capital (Holt, 2020). In essence, when an entity fails to manage its working capital, it stares at losses. To be efficient, health institutions use financial information to handle their working capital, to prevent overspending and underspending.

According to Osho and Adebambo (2018), external shareholders use financial statement analysis to fathom the current occurrences in an entity and evaluate its business value and financial performance. They use financial statement scrutiny to conclude what they will do with their investment. In this regard, based on the performance of a healthcare facility, they can either hold on to their shares, trade them, or purchase more. Internally, healthcare organizations use financial statement analysis as a tool for managing their funds. Financial statements of a healthcare organization details every aspect of their daily activities. In this regard, analyzing them helps determine the past, present, and future financial performance of a healthcare organization. The analysis indicates the operation costs and a baseline for scrutinizing the profit margins. The management can use the results of fiscal statement breakdown to arrive at strategic verdicts about the future. For example, they can estimate the cost-per-distribution channels or the amount of money in their reserves and make pronouncements based on the results of this analysis.

Again, financial statement analysis is one way of managing debt ratios in healthcare organizations. The debt to capital ratio shows the long-term value and strength of a healthcare facility and is important for investors and in analyzing risks (Wang et al., 2018). In this regard, healthcare organizations with long-term debts, low capital margins, and asset values operate a risky model of business. The management can utilize the debt to capital ratio to identify new

business opportunities, strategic asset acquisitions, and debt reduction in a manner that increases sustainability and long-term profits.

Second, financial statement analysis plays a crucial role when tracking operational ratios that are used to model revenue based on factors like length of stay and occupancy rates. The variables when dealing with treatments and procedures are unpredictable. However, healthcare can calculate the costs for basic services and beds, regardless. These operational models can be done via financial statement analysis to ensure that healthcare organizations manage cash flows against regular overhead (Wang et al., 2018). Furthermore, many creditors want to know if a healthcare facility can honor its payments.

One of the methods they use is to analyze an organization's financial statement to determine its liquidity, and its ability to make short and long-term payments. For privately-owned facilities, the owners need analyzed financial statements to determine whether they are making profit (Olaussen, 2017). It is important to note that no private health facility will want to shut down because they are unable to generate revenue. As much as they offer life-saving services, they are also a business that intends to make money. In the end, they analyze financial statements to determine where to improve or give up on their investments. On the other hand, shareholders in healthcare companies need financial information to determine the way an organization is performing. Also, the general public may want to know how a healthcare facility is effective in offering services to its clients. Therefore, a financial statement analysis can show the stability of operations in such cases facilities, hence inspiring public confidence.

In conclusion, the healthcare sector is witnessing a transformation, where financial information plays a crucial role in daily operations. Healthcare providers can no longer ignore the financial aspect of healthcare as it helps them make crucial decisions that cannot be

underscored. Thus, it is incumbent upon healthcare professionals to become financially literate in a dynamic healthcare environment.

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