

Health Care Accounting

3rd Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Overview of the Health Care Industry	1
Learning Objectives	1
Introduction	1
Types of Health Care Organizations	2
North American Industry Classification System Codes.....	2
Applicable Accounting	3
Financial Reporting Requirements.....	3
The Structure of this Book.....	4
Summary	4
Review Questions	5
Review Answers	6
 Chapter 2 – The System of Accounting.....	 7
Learning Objectives	7
Introduction	7
Financial Accounting Basics.....	7
Accounting Frameworks.....	8
Accounting Principles	9
The Accounting Cycle	10
Accounting Transactions	11
Types of Transaction Cycles	11
Source Documents.....	12
Double Entry Accounting.....	12
The Accounting Equation	13
Journal Entries	15
The Accruals Concept.....	16
The Chart of Accounts.....	16
Major Journal Entries	18
The Ledger Concept	19
Posting to the General Ledger	20
General Ledger Overview	20
The Trial Balance.....	21
The Trial Balance Format	22
The Extended Trial Balance.....	23
Accrual Basis of Accounting	24
Cash Basis of Accounting	24
The Financial Statements.....	25
The Income Statement	25
The Balance Sheet	26
The Statement of Cash Flows.....	27
Summary	29
Review Questions	30
Review Answers	31
 Chapter 3 – Not-for-Profit Accounting and Reporting	 33
Learning Objectives	33
Introduction.....	33
The Accounting Equation	33
Net Assets	34
Net Assets without Donor Restrictions	34
Net Assets with Donor Restrictions	34
Net Assets Summary	34
Types of Revenue	34
Promises to Give.....	35

Table of Contents

Exchange Value.....	36
The Allowance for Uncollectible Pledges	36
Overview of Government Grants	36
Grant Accounting	37
Income from Government Grants	38
Required Not-for-Profit Financial Statements.....	39
Statement of Financial Position.....	39
Statement of Activities	40
Statement of Cash Flows.....	41
Summary	42
Review Questions	43
Review Answers	44
Chapter 4 – Governmental Accounting and Reporting.....	45
Learning Objectives	45
Introduction	45
Fund Accounting Systems.....	45
Basis of Accounting and Measurement Focus	45
Fund Contents	46
Budgetary Reporting	46
Interfund Activity	46
Asset Transfers.....	47
Presentation Issues.....	47
Reporting Net Position	47
Required Enterprise Fund Financial Statements.....	48
Statement of Net Position	48
Statement of Revenues, Expenses, and Changes in Fund Net Position	49
Statement of Cash Flows.....	51
Summary	54
Review Questions	55
Review Answers	56
Chapter 5 – Cash and Receivable Accounting.....	57
Learning Objectives	57
Introduction	57
Check Receipts.....	57
Check Receipt Improvements.....	58
The Bank Lockbox.....	58
Remote Deposit Capture	58
Cash Receipts	59
Credit Card Receipts.....	60
The Bank Reconciliation.....	60
The Not Sufficient Funds Concept.....	62
Bank Reconciliation Problems	62
The Daily Bank Reconciliation	62
Billings	63
Third-Party Payor Payment Methods	63
Valuation of Receivables	64
Calculating and Recording Bad Debts	64
Direct Write-Off Method	64
Allowance for Doubtful Accounts.....	65
Estimation of Bad Debts	65
Contractual Adjustments.....	65
Summary	66
Review Questions	67
Review Answers	68

Table of Contents

Chapter 6 – Inventory Accounting	69
Learning Objectives	69
Introduction	69
The Periodic Inventory System.....	69
The Perpetual Inventory System	70
The Physical Inventory Count.....	71
Inventory Cost Layering Overview	73
The First In, First Out Method.....	73
The Last In, First Out Method.....	75
The Weighted Average Method	76
Estimating Ending Inventory	77
Summary	78
Review Questions	79
Review Answers	80
Chapter 7 – Fixed Asset Accounting	81
Learning Objectives	81
Introduction	81
What Are Fixed Assets?.....	81
Types of Fixed Assets.....	82
Accounting for Fixed Assets	84
The Capitalization Limit.....	84
The Base Unit	85
The Initial Measurement of a Fixed Asset.....	85
The Purpose of Depreciation	86
Depreciation Concepts	86
Accelerated Depreciation	87
Sum-of-the-Years' Digits Method	87
Double-Declining Balance Method	88
Straight-Line Method.....	89
The Depreciation of Land	89
The Depreciation of Land Improvements	89
Depreciation Accounting Entries.....	90
Accumulated Depreciation.....	90
Asset Impairment	91
Asset Derecognition	92
Abandoned and Idle Assets.....	93
Asset Disposal Accounting	93
Summary	94
Review Questions	95
Review Answers	96
Chapter 8 – Asset Retirement and Environmental Remediation Obligations	97
Learning Objectives	97
Introduction	97
Overview of Asset Retirement Obligations.....	97
The Initial Measurement of an Asset Retirement Obligation	98
Subsequent Measurement of an Asset Retirement Obligation	99
Settlement of an Asset Retirement Obligation.....	99
Overview of Environmental Obligations	101
Measurement of Environmental Obligations	102
Recoveries Related to Environmental Obligations	103
Summary	103
Review Questions	104
Review Answers	105

Table of Contents

Chapter 9 – Current Liabilities	107
Learning Objectives	107
Introduction	107
Current Liabilities	107
Prepaid Health Care Services	108
Bonus and Risk Retention Plans.....	108
Accounting for Accounts Payable	108
Common Accounts Payable Journal Entries.....	108
Aged Accounts Payable Report	109
Early Payment Discounts.....	109
Accounting for Accrued Liabilities	110
Deferred Compensation Arrangements	111
Deferred Revenues	112
Commitments.....	112
Contingencies	115
Stop-Loss Insurance Arrangements	115
Medical Malpractice Claims	116
Guarantees	116
Presentation Issues.....	117
Disclosures	117
Summary	117
Review Questions	118
Review Answers	119
Chapter 10 – Debt Liabilities	121
Learning Objectives	121
Introduction	121
Basic Debt Accounting	121
The Amortization Schedule	122
Reconciling the Debt Account	123
Debt Modifications and Extinguishments	123
Bond Overview.....	124
Municipal Bond Financing	125
Bond Premiums and Discounts	126
Summary	128
Review Questions	129
Review Answers	130
Chapter 11 – Revenue Recognition	131
Learning Objectives	131
Introduction	131
Steps in Revenue Recognition	131
Step One: Link Contract to Customer	131
Step Two: Note Performance Obligations	132
Step Three: Determine Prices	134
Variable Consideration	134
Possibility of Reversal.....	135
Time Value of Money.....	136
Step Four: Allocate Prices to Obligations.....	137
Allocation of Price Discounts.....	138
Subsequent Price Changes	139
Step Five: Recognize Revenue	139
Measurement of Progress Completion	140
Change in Estimate	142
Progress Measurement	142
Consistency	142
Entitlement to Payment	142

Table of Contents

The Health Care Revenue Environment	143
Charity Care	144
Naming Opportunities	144
Patient Payments	145
Use Fees.....	145
Presentation	145
Disclosures.....	145
Summary	146
Review Questions	147
Review Answers	148
Chapter 12 – Payroll Accounting	149
Learning Objectives	149
Introduction.....	149
Gross Pay Calculations	149
Hourly Rate Plan	149
Overtime	150
Types of Payroll Taxes.....	151
Social Security Tax.....	151
Medicare Tax.....	151
Unemployment Taxes.....	152
Income Tax Withholdings	152
Benefits and Other Deductions.....	156
Net Pay.....	156
Remitting Payroll Taxes	156
Types of Tax Deposit Schedules.....	157
Monthly Deposit Schedule	157
Semiweekly Deposit Schedule	158
Federal Unemployment Deposit Schedule	158
Remittance Method	159
The Form 941 Quarterly Federal Tax Return.....	159
State Tax Remittances	159
Payments to Employees.....	160
The Payroll Register.....	161
Form W-2.....	162
Payroll Journal Entries	163
Types of Payroll Journal Entries.....	163
Primary Payroll Journal Entry.....	164
Accrued Wages	164
Manual Paycheck Entry	165
Employee Advances	165
Accrued Vacation Pay	166
Tax Deposits	167
Summary	167
Review Questions	169
Review Answers	170
Chapter 13 – Split-Interest Agreements	171
Learning Objectives	171
Introduction.....	171
Split-Interest Agreements.....	171
Types of Split-Interest Agreements	171
Accounting for Split-Interest Agreements	172
Initial Measurement	173
Ongoing Measurement	173
Termination	174
Classification of Net Assets.....	174

Table of Contents

Summary	174
Review Questions	175
Review Answers	176
Chapter 14 – Affiliated Organizations.....	177
Learning Objectives	177
Introduction.....	177
Affiliated Organizations	177
Special Purpose Entities	178
Noncontrolling Interests.....	179
Related Parties	179
Summary	180
Review Questions	181
Review Answers	182
Chapter 15 – Special Accounting Topics	183
Learning Objectives	183
Introduction	183
Advertising Expenses.....	183
Agency Funds	183
Nonreciprocal Transfers	183
Prepaid Expenses.....	183
Prepaid Health Services.....	183
Related Fundraising Entities.....	184
Sale and Leaseback Transactions.....	184
General Presentation Issues	184
Presentation Issues Specific to Not-for-Profit, Business-Oriented Entities.....	184
Disclosures	185
Summary	186
Review Questions	187
Review Answers	188
Chapter 16 – Management Accounting in Health Care	189
Learning Objectives	189
Introduction	189
Full Costing Analysis.....	189
Step 1. Define Cost Objects.....	189
Step 2. Determine Cost Centers	189
Step 3. Identify the Nature of Applicable Costs.....	190
Step 4. Identify Allocation Bases.....	191
Step 5. Select an Allocation Methodology	192
Step 6. Link Identified Costs to Cost Objects.....	192
Uses for Full Costing.....	192
Summary	193
Review Questions	194
Review Answers	195
Glossary.....	197
Index	203