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### Recommended Citation

Haskins & Sells Selected Papers, 1961, p. 139-155

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# Accounting Reports as a Tool in Hospital Management

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*Presented before the Oklahoma Hospital Association, Tulsa—November 1961*

LONG AGO, the general impression of a bookkeeper was that of a man who sat in a corner of the office on a high stool at a drafting table, wearing a green eye shade, armbands, and perhaps in more formal moments, a tight coat. This was a bookkeeper who never dreamed of using the information he had so laboriously compiled. Bookkeepers were slowly converted to accountants and began to learn how much real information was contained in their dusty ledgers and how useful this information could be when properly presented to management. They became reporters, commentators, and observers of business. They could tell groups of non-accountants who were managing the company what was going on. Later, they found that they needed to do more than just report. More and more frequently, they were being asked for opinions and advice on policies, and they became a part of the management team. They found it necessary to leave their offices and find out what was going on around them.

Long ago, the terms administration or management were associated with the "Boss"—an individual who functioned in mysterious ways and whose actions were neither open to analysis nor question. He was often successful in spite of himself. Accelerated by such factors as inflated costs, technical advances in the field of medicine, and the increase in the size and complexity of hospital operations, the conversion to modern ideas of management in hospitals has been rapid. The concept of a "Boss" has given way to that of a skilled administrator who dispenses policies, delegates authority to scarcely less-skilled subordinates, and makes decisions based in large measure on factual information supplied by a controller.

People responsible for managing the hospital need information in order to know what is going on, what actions should be taken, and what decisions are likely to be most advantageous to the hospital. As the hospital grows, management must rely to a greater extent on information compiled, summarized, and interpreted by the accounting department. Both accounting and statistical information furnish valuable evidence to management. Accounting expresses in terms of

money the effect of hospital transactions, whereas statistics seek to measure through quantitative data the extent of utilization of hospital facilities. The record-keeping required in gathering accounting and statistical information is recognized as only a means to an end and not an end in itself. Records are used not only to keep people honest but to keep them efficient as well. It is necessary to translate to others the full story the figures try to tell. Accounting information must be communicated to management personnel. Communication implies that the person receiving the information understands the nature and significance of material contained in reports he receives. When communication is genuinely effective, management's actions and decisions are likely to be based on the facts received rather than on untested impressions and guesses. However, there is reason to believe that accounting reports to management have not always achieved their intended purpose, because the reports were not understood, recipients did not have the time required to grasp the meaning, or the contents of reports were not relevant to problems faced by the persons who received them.

#### RESPONSIBILITY AND UNIFORMITY IN ACCOUNTING

The American Hospital Association and the Oklahoma Hospital Association have recommended use of the Uniform Chart of Accounts and Definitions for Hospitals. I am sure that you will recognize that there must be an adequate system of general accounting with appropriate classifications of income and expense designed to provide basic data needed in the preparation of periodic statements. Adequate accounting is dependent on adequate statistical information. Accounting and statistics are so interrelated in the management of a hospital that attempts to evaluate the position of an institution may be misleading if the accounts are not considered in conjunction with their related activities. Statistical data should be compiled and classified in a manner consistent with the accounts so that the activity of each department can be related to its corresponding financial record. The true value of reports, both financial and statistical, may be attained only by the regular compilation of data on a consistent basis.

The Uniform Chart of Accounts also recognizes that the hospital is a group of various activities, all of which are coordinated toward the end of rendering service to the patients. These activities have been grouped into departments, each of which has been placed under

supervision of a person responsible for the proper performance of its functions. An adequate basic system of accounting for management purposes would have to be so arranged that the amounts of outlay incurred for the particular purposes of each department would be grouped together. There should also be an adequate subclassification for these costs into the major components, such as salaries and supplies, that will permit management to get more definitive figures on the types of costs used by each department. In this way the costs of a department can be ascertained and assigned to the responsible parties. These costs are called direct costs. To a great degree, the Uniform Chart of Accounts parallels the organization structure of the hospital and allows us to coordinate accounting reports with the organization plan. This is desirable because the scope of authority possessed by an individual executive or supervisor and the functions for which he is responsible determine the information needed to accomplish his function. An individual's position in the hospital organization helps determine what information he needs to do his work. Organization also determines the scope of his ability to make decisions and to take action. For this reason, the accountant needs to observe lines of authority and responsibility set up by the hospital's organization plan in reporting information which suggests the need for managerial action.

That different purposes call for different kinds of information is generally recognized by accountants. The uses to be made of the information by each individual in the management group are the only sound guides to the content of the accounting reports that these individuals receive. When these uses are kept in view, it is possible to select the specific information that is relevant. Where this approach is not followed, data that would be helpful to the recipient of the report may be omitted from the report or management's time may be wasted in screening a mass of unimportant details to find the facts wanted.

Information contained in accounting reports is used for purposes that may be grouped into three broad categories :

- 1) to provide background information ;
- 2) to present the anticipated financial results of plans for future operations ;
- 3) to measure success in maintaining control over current operations.

Reports of a purely informational nature ordinarily do not lead to

immediate action, but they aid in planning for the future and in formulating policies. Reports containing information in the other two classes usually call for action. Thus a report presenting results expected in the proposed plan is logically followed by a decision to accept, modify, or reject the plan. A report showing that operations are out of control obviously calls for corrective action.

Since relative importance of the previously listed purposes for which accounting data is used shifts downward through the organization from general executive management to management of operating departments, two management groups are used for purposes of discussion.

### REPORTING TO EXECUTIVE MANAGEMENT

A distinguishing feature of top management is that management at this level carries responsibility for administration of the hospital as a whole. The hospital administrator usually does not have responsibility for operations of any specific function, but has a broad responsibility that makes it necessary to have a complete picture of the hospital's operations. The accounting reports to top management are accordingly characterized by the fact that they present the financial results of hospital operations in consolidated form, together with such additional information that may be needed to assist in coordinating activities of the various departments. The administrator normally spends a great part of his time in planning for the future and in establishing policies and objectives for future guidance. Accounting information entering into this planning appears in the form of forecasts and budgets. Historical reports and tabulations of historical data provide important background information for planning, and are interesting because they throw light on what may be expected in the future, but more attention should be paid to forecasts and budgets than to reviewing historical statements.

Forecasts and budgets that are utilized fall into two groups according to whether they constitute tools for long-range planning over several years or for short-range planning covering the coming year. The accountant can assist in forecasting what effect proposed plans will have on future capital investment, operating costs, and cash position of the hospital. Long-range forecasting is also important in establishing an effective cost-control program because actions that management may take today can have the effect of increasing the cost

of operations for years to come. It can be used as a yardstick against which to measure the probable future effects of proposals that may be currently before management for decision. Dramatic use of a long-range forecast would be one that indicates the hospital is approaching a loss position, perhaps owing to factors in the economy entirely beyond the control of management. While management may not control the causes, it can very likely modify the effects of such a future situation if it has sufficient advance notice.

Hospitals that plan to increase bed capacity in the future do not plan to add beds year by year until the desired capacity is reached. Administrators of hospitals that have borrowed money to assist in construction are familiar with the lending institution's request for information concerning probable future occupancy, future cash position, and other essentials of a forecast required to assure them that the loan will be a good one. Over-all long-range planning is a top-management function, and consequently accounting reports presenting long-range forecasts should go only to the Administrator and Trustees. The fact that the figures contained in these statements have a wide margin of uncertainty is known to those who use the figures and the statements are commonly termed *forecasts*, *projections*, or *estimates* to distinguish them from the annual budget. When long-range forecasts are prepared, these forecasts usually accompany the annual budget so that management has available a detailed operating plan in financial terms for the customary budget period, together with a summary forecast of key items for a more extended length of time. For example, a long-range projection of capital expenditures may accompany the capital expenditures and cash budget for the coming year. Long-range goals are not achieved easily. The underlying plans are not so specific as short-range plans and many opportunities to alter and modify the plan may develop. The short-range goals or plans must be reconciled with the long-range objectives.

Short-period planning uses a periodic budget as its principle tool. When budgeting is fully utilized, and I earnestly recommend this for hospitals, the budget constitutes a coordinated financial plan for all aspects of the hospital's operations during the forthcoming period. If the administrator is active in the planning and coordinating phases of budgeting, the subsequent current control can be delegated in large part to department heads. The administrator would always be interested in the comparison between actual performance and the budget, but should find it unnecessary to review such comparisons in

detail as long as comparison of key items indicates the performance of the hospital as a whole is under control. Where individual department heads have specific operating responsibilities they should take active part in developing the budget for their own department. Numerous reviews and consultations usually take place in preparing the budget for the next year, and management personnel can obtain their best view of the hospital's operation through their participation in periodic budget preparation. The approved budget comprises a set of summary financial statements backed by detail schedules. These schedules serve as a record for future reference when the administrator wishes to refresh his memory with respect to what plans were made.

Direction and supervision of operations are carried out by others to whom authority has been delegated. Once this system has been set up, the administrator maintains control over current operations by reviewing the plans and performance of his department heads. Performance is followed by watching figures chosen to represent or to measure the effectiveness with which delegated authority has been exercised. In reviewing figures presenting current operating results, management concentrates on deviations from predetermined objectives or changes from past experience. Where operations are progressing according to the plan expressed in the budget, little time need be spent studying the figures. Great reliance is placed on a controller for screening out the important items and for bringing out the significance of the figures.

An attempt should be made to determine what accounting figures your administrator and each individual trustee wishes to see repetitively and how frequently he needs them. Most of these men will agree that a few figures are wanted regularly on a daily, weekly, or monthly basis while the numerous figures available in what might be called a comprehensive set of accounting reports are wanted only occasionally. The basic reports for administrative control are the balance sheet, budget, operating financial statement, and statistical report, and practically all information necessary for administrative control should stem from data contained in them.

#### BALANCE SHEET

The balance sheet is best shown in comparative form, with that of last month and that of a year ago. If statements are accompanied with an analysis report, it is desirable that the analysis follow at least roughly the same sequence of topics each month. There are many

analyses that can be prepared to accompany the balance sheet. Whether to report on each one of these each month or less frequently is a matter of individual decision. The working-capital analysis is one of the most common interpretations to be made. Together with this analysis, an application-of-funds statement is a good method of showing how the working-capital change arose. The net amount of working capital available is usually a matter of concern to an administrator or Trustee and the makeup of this must be watched. The total may be adequate, but if it is all tied up in receivables and inventory with too little cash, you have problems. Actually, the cash position must be watched daily rather than just once a month. A notable increase in accounts receivable from patients is a matter of prime importance. If the accounts receivable should increase to the point where the hospital has insufficient cash to meet payroll, take advantage of purchase discounts, or meet current bills, the financial situation could become very serious. Accountants generally recommend that the accounts receivable be aged monthly, preferably according to the date of last payment, in order to determine what accounts are inactive. A report of this type is sometimes very difficult to prepare in hospitals. It should be far easier, however, to indicate the composition of the accounts receivable. This would show the number of accounts concerned and the balances due from patients still in the hospital, the amount due from Blue Cross, the insured balances due from other discharged patients, and the amounts due from patients who are considered to be private pay. Some hospitals also show balances arising from out-patient services separately. In some instances, it is possible for the attending staff to help the hospital maintain its accounts receivable at a minimum figure. A report *Bad Debts Written Off by Attending Physician* is suggested as one method that will help accumulate this data. This is done by adding the physician's name to each debt when it is written off. Many hospitals offer a report monthly on the number-of-days income represented in the accounts receivable total, which gives an indication as to whether the collections are keeping pace with occupancy.

#### BUDGET REPORT

At this time it might be well to consider the various types of budgets that should be used by the administrator and trustees to manage their hospital. Basically, there are three kinds of budgets needed to fulfil the planning obligation. A budget is a financial state-



ment of the estimated revenues and expenditures for a definite period of time. By extension, it is a plan or program for financing the hospital, based on such a statement. The operating budget consists of a projection or estimate of all income that may be received and all expenses that may be incurred during a period. A capital-expenditures budget reflects the amount to be expended for equipment, permanent improvements or other capital additions. A cash budget shows the estimate of cash receipts and disbursements, and is usually prepared on a monthly basis for the purpose of indicating the cash position at the end of each month.

The operating budget can be the most important single planning document and management tool available to the administrator, whereas the cash budget may be the most important single management tool that can be made available to the Trustees. The cash forecast is approximately represented by the operating deficit plus capital expenditures plus increased or decreased accounts receivable. Without the cash forecast, it is impossible to determine if a deficit can be supported, or if funds will be available for capital expenditures.

Budgeting is an accounting technique designed to control costs by means of people. Budgetary planning and control should become a way of thinking within the entire organization. To be effective, it must be fully accepted and wanted by administration. If preparation of the budget is assigned to the hospital accountant as just another chore, it becomes a mere mechanical or technical exercise without management involvement, and the full potential of budgetary planning and control will not be realized. The best approach to cost control is participation and understanding at all organizational levels. As a management tool, budgetary planning and control can achieve the following results:

- Interest more people in the side of management
- Motivate in subordinates an attitude of identification with the organization
- Minimize conflict between personal and hospital objectives
- Assist in the evaluation of individual and departmental performance
- Forecast cash requirements
- Assist management in making decisions

Where cash is scarce or cash balances are intentionally held to a minimum, daily, or weekly forecasts are commonly used. Fore-

casts for such short periods are prepared by scheduling anticipated cash receipts and disbursements. Short-period forecasts can usually be made with considerable precision because forecasted receipts come principally from receivables already on the books, and disbursements are determinable from invoices already received, from payrolls, and from other commitments that are known. For purposes such as disclosing periods when cash will be available for investment, or periods when short-term loans will be needed to supplement the hospital's own cash resources, monthly cash forecasts are generally used. As with other components of the budget, monthly cash forecasts are often revised and extended each quarter to maintain an outlook for the coming twelve months. Monthly and annual cash forecasts are sometimes prepared by forecasting receipts and disbursements, but more often these forecasts are made by adjusting budgeted net income to an approximate cash position and then adding or deducting changes in assets and liabilities that are not reflected in current income. Daily and weekly forecasts together with reports of actual cash balances for like periods are primarily working tools for hospital personnel directly concerned with cash-management functions. However, monthly and annual cash forecasts are frequently included in financial reports received by all members of the Board of Trustees.

#### THE INCOME AND EXPENSE STATEMENT

The actual income and expense for the month and year to date can be shown all by itself with no comparative data shown. This has the advantage of simplicity and ease of preparation, but there are no reference points to show whether the current results are good or bad. It is better to show the current month and the year-to-date actual in comparative form with the same data for the previous months or the same month a year ago, and this is very commonly done. This has the advantage of showing how you are doing in comparison with last year, but has the disadvantage of not showing whether or not you are making the progress you had hoped to make. It is necessary to keep in mind whether the comparison periods were good, average, or poor. The best comparison is that with the budget, which sets actual results against the standard performance set for yourself, and the results are obvious. With this comparison, variations resulting from something unusual in the past period do not occur. This often happens when comparing with the previous year. A comparison based on current data as set up in the budget uses current rates of income and expense items

which may differ from those of the past period. This comparison with the budget also gives the control feature expected from a budget.

Statements of income and expense are usually furnished to the Board of Trustees in condensed form, but reports in full detail are needed for the administrator's use. A condensed statement of general-fund income expense may require some comment or analysis. For the income statement, the most important relationship is the effect of occupancy on income. Assuming you use a budget, you should compare the actual occupancy with that in the budget and see whether any variation brought in a more-or-less-than proportionate amount of income from that budgeted. If there are any unusual trends in any of the other income items, they should also be pointed out. The largest and most important expense is that of salaries. An analysis will be easier to prepare if you develop routine statistics on the number of employees on the payroll each month and the number of man-hours of work they produce. Other expense classifications must be analyzed and explained as best possible. The usage of such items as raw food, drugs, and X-ray film can usually be related to hospital occupancy, but supplies, repairs, and other items may have no such relationship and must be explained on an individual basis if an explanation appears to be necessary.

#### THE STATISTICAL REPORT

The accumulation, compilation, and presentation of statistics are always dependent on the purpose for which the data are compiled. Periodic examinations should be made of each set of statistics to prevent the presentation of reports that do not provide useful and informative data to administration. A primary purpose of statistical matter is to provide information to guide internal operations. It should be emphasized, therefore, that the kinds of statistical data desired may vary considerably from one management to another, depending on individual methods and problems. An example of such variation is found in the information desired by one administrator who is concerned mainly with service by accommodations, designated as private, semi-private, and ward; and those statistics desired by another who is concerned with service by type of medical care, designated as medicine, surgery, or obstetrics. Regardless of the primary concern and individual problems of administrators, correct and complete statistical data are needed for the following reasons:

- To establish administrative control over functional activities

- To provide a basis for preparing operating budgets
- To render reports to governing bodies, outside agencies, etc.
- To provide a basis for the distribution of expenses when computing cost of operations
- To provide a basis for the calculation of average income and cost per unit of service rendered

The effectiveness of any report depends on its terminology meaning the same to a person who reads it as it does to the person who prepared it. The use of different names for identical statistics or vice versa is as confusing within a hospital as it is among a group of hospitals. The true value of reports, both financial and statistical, is attained only by the regular compilation of data on a consistent basis. The American Hospital Association has provided definitions of hospital statistics that are intended to attain uniformity among hospitals in its manual *The Uniform Chart of Accounts and Definitions for Hospitals*.

Information that is usually included in the statistical report includes the following: hospital services rendered during the month and year-to-date, occupancy ratio, average length of stay of discharged patients, personnel turnover, hours of nursing care per person-day, average number of employees expressed in full-time numbers, days, or hours. The following reports are recommended as contributing to business management in the hospitals.

#### DAILY CENSUS REPORT

This might be sent to the whole Board but probably to only a select few. This report is best prepared on a standard form which would include such things as occupancy at the end of the previous day, patient-days for the month and year-to-date, budgeted occupancy for these periods, occupancy for similar periods a year ago, and any other pertinent data. This would include hospitalization of employees, admission of VIP's, and patients refused admission. We also recommend that the data be developed on a basis that would record numbers of beds not utilized by areas of service, such as obstetrical, pediatrics, surgical, and medical.

#### DAILY CASH REPORTS

There are very few hospitals that do not have to keep a close watch on their cash balances. A daily report on this for administrative use is practically a *must*. If you have any special funds for research,

free-bed work, building funds, etc., the need is all the greater. A minimum report on cash would show only the present cash balances of all accounts. A more complete report would show the last balance reported, receipts, disbursements, and the present balance.

It is sometimes very helpful to prepare these two reports on a pocket-size data sheet for the administrator, which he can carry with him for convenient and ready reference.

#### THE ANNUAL AUDIT REPORT

The hospital controller does not prepare this report, but he may be the one to present it to the Board with a letter of transmittal. Very often the audit report or the supplementary letter written by many accountants will contain suggestions for improvement of existing procedures. These suggestions call for response from the controller which he may want to include in his letter of transmittal or which he may want to make the subject of a separate report later on.

#### COST REPORTS

The reports prepared from the chart of accounts can be used directly for all hospitals in showing the controllable cost of each department. These reports would show the actual direct cost for each department for a period, and may be used by department heads and administrators for purposes of control at the source of incurring cost, since this is where the responsibility lies. Comparison of these direct costs with the same costs for a previous period or with budgeted figures for the same period may show differences in the total direct costs or unit costs. The departmental direct-expense report is a type of immediate cost analysis that can be used by even the smallest hospitals, and is prepared directly from the expense ledger without allocation of any overhead cost. The units of measurement for departmental direct costs are the bases that might be also used for charging institutional services to the revenue-producing departments. This report is a valuable instrument for managerial control, as well as a possible preliminary to more comprehensive analysis of hospital costs.

A decrease in dietary expenses, for example, would not necessarily reflect greater efficiency in economy and operations. When related to the cost of meals served, the cost per meal might actually be greater than the cost experienced in the past despite a decrease in dollar expenditures.

Direct cost recorded for the basic functions of the hospital may

be reassigned and regrouped toward the end of providing more complete cost information concerning the operations of individual departments. The general service departments in a hospital perform services to other general service activities as well as to special services and patient-service functions. Total expenses of any activity include all costs of any service received, whether from outside agencies or from other activities within the hospital. It is necessary to use a cost-allocation procedure or special cost study to assign indirect costs to an activity in order to arrive at the total cost.

The purpose to be served by a cost analysis is most important, as this frequently determines the manner in which expenses are to be allocated to cost centers. For internal management purposes, the conventional method of determining the cost of activities is generally acceptable. Under this method all cost centers are charged with a pro-rata share of indirect expenses. When this method is applied to all the activities of the hospital, it is called general cost finding or general cost analysis.

The purposes for which cost may be accumulated by general cost-finding procedures include the following:

- Assessing the adequacy of the rate structure
- Public relations
- Reporting to specified agencies
- Comparison of data with other hospitals
- Contracting with third-party agencies

The time it takes to prepare a cost report makes it more desirable to prepare a cost report quarterly or semi-annually.

Information shown in regular routine reports may provoke a question or a request for additional information and thereby cause preparation of a special report. As the name indicates, special reports are used in special situations. If they are prepared because of a problem, it is usually desirable to propose a remedy. In addition to reports requested by management, special reports can be originated by the accounting department to bring management's attention to some matter that appears from the financial records to require attention.

#### **SPECIAL REPORTS**

Special reports include cost studies on special situations or for specific information.

A special cost study is defined as an analysis conducted beyond

the normal accounting procedure for the purposes of providing information for general management uses. Studies of particular activities are valuable because they provide detailed information ordinarily not reported, yet necessary for full analysis of an administrative problem. It is possible to obtain cost and statistical figures for almost any purpose desired by management. Some of the areas of administrative action in which these studies would be appropriate are:

- Judging the operational efficiency of an activity in terms of total costs
- Determining costs of specific activities within a department
- Determining costs of educational programs for student nurses, internes, and others
- Determining the break-even point
- Finding the cost of purchased printing
- Evaluating alternate choices in:
  - a) Discontinuing a hospital laundry and using the services of an outside company
  - b) Employing an outside agency to manage dietary or house-keeping departments
  - c) Using equipment centrally or in departments
  - d) Utilizing equipment or personnel

Special funds, such as the grants from the Ford Foundation, student-nurse loan funds, and research grants often require special reports which summarize the fund purpose, show the balances, receipts, and disbursements, and restrictions, if any.

Special reports for non-repetitive decisions are often prepared for supervisors and department heads.

#### REPORTING TO SUPERVISORS AND DEPARTMENT HEADS

Members of this group are distinguished from executive management in that they are directly responsible for the operations of their department or functional unit, but do not have a broad, general responsibility. Reports to supervisors should emphasize current control and supply information that constitutes the basis for specific actions. Personnel at this level do not receive a balance sheet because they have no control over balance-sheet items, but information concerning inventories is made available to supervisors of departments maintaining inventories. There rarely is a need to furnish income statements,

because these managers are held responsible for quality of service and cost control, but not for income arising from their department.

Department heads and supervisors are in a position to exercise a very important influence over operating costs. Accounting reports to them should deal with costs and statistics that bear on costs.

Variances from standard or budget are the most useful figures the accountant can supply, and often an explanation of certain costs or variances can be of tremendous help to a department head. Where standards and budgets have not been developed, comparisons can be made with costs of the preceding period. Because conditions and volume can vary so greatly from month to month, a historical comparison is of less value than comparisons with a flexible budget.

Many hospitals utilize accounting solely to supply financial information to top management, and have not developed understanding of accounting as a management tool at the supervisory level.

When the questions of *what to report to whom* have been answered, the requirements of the report, who should prepare it, and how it should be presented need to be considered. Effective communicating or reporting is necessary for the understanding of accounting as a management tool.

## REPORT PRESENTATION

### *Standardization*

Regular reports, such as the monthly financial statements, should be prepared in a standard form showing the same items in the same place each month. Daily census reports are often made on a pre-printed form. This report can be made on plain paper as long as the same sequence of information is followed. Standardization assists in preparation of reports, and is intended to be of help to the reader. However, it should always be kept in mind that preparation of standard reports is not the principal purpose of the hospital. If a recipient of a report desires a change in form or placement of figures, try to accommodate him. Standard, or distinctive, colors are desirable for report covers because a desired report can be more quickly recognized by those who use the reports. Uniform binder size aids in storage of reports.

### *Appearance and Readability*

The appearance and readability of reports can be improved by proper spacing of headings and captions. Final digits that add nothing



to the significance of figures may be dropped, or the figures rounded to the nearest hundred dollars. The reports must be accurate, but this does not prevent dollar rounding. Accuracy is most important in preventing distortion of facts or presentation of opinions as facts.

#### *Timeliness*

Interest in accounting information is highest while the events that produced the figures are still remembered. Reports should be issued promptly, regularly, and at appropriate intervals. A daily cash report received a week late is useless.

#### *Analysis*

Accounting reports should not transfer to the reader the responsibility for analysis and interpretation of figures. Many organizations separate the responsibility for the preparation of figures appearing in reports from the analysis and interpretation of such figures. This is done on the theory that a person not tied down to the maintenance of the books and records can spend more time with operating supervisors and therefore have a greater knowledge of the organization as a whole, with less concern for the detail back of the statements.

It is always desirable to accent exceptional performance, point out significant items, and give causes for changes that have occurred.

Many board members will appreciate a summary or condensed statement of income and expense. If the hospital is operating within its income, they look no further. If operations show a loss, analyses of favorable and unfavorable variations from the budget are usually necessary.

#### *Report Language*

It is often said that reports should be complete and concise, and show clarity of purpose. Neither too much nor too little information should be furnished, but whatever is shown must be understandable to the reader. Familiarity with some accounting terminology can be expected of all members of management, but technical terms and methods of presenting figures should be avoided when they are not essential.

Meetings between accounting and management personnel are helpful in developing an understanding of accounting reports.

## COMMUNICATION MEDIA

Accounting information can be presented in written form, in charts and graphs, and orally. Sometimes a combination of the media is more effective than any single one used by itself.

Accounting statements and statistical tabulations are prepared to provide an official record, to bring together the basic data, and for reference material. Words are used to tell what the figures mean and to supply emphasis.

Charts and graphs can present more clearly the upward trend of hospital income and expense than can any set of figures. They are particularly useful for presentation to groups and to the public. Contrasts, comparisons, and trends are portrayed readily. An effective means of presentation before a group is to have an individual stand beside a chart, discuss the figures on which it is based, and use a pointer to follow a line or touch a set of bars.

Hospitals spend a considerable amount of money in compiling the necessary accounting and statistical data. The costs of keeping these records cannot be eliminated by omitting one or more internal reports, since the basic financial records and accounts must be kept for other purposes. It is a good policy, however, periodically to review the list of accounting reports and ask whether or not they are still needed, or whether the information is furnished in some other report.

Hospital costs continue to rise, and related problems of personnel continue to exist. Some of the answers lie in the analysis of systems, in the identity of costs, in standards as a means of objective measurement, and in the accepted tools of budgets and realistic reporting for administrative control and direction.