

# The Role of Accounting in Health Service Organizations

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**Abstract:** Accounting is very necessary for the parties concerned as a source of information in helping to make decisions. Information is needed in making health service organization decisions. The usefulness of information is to increase user knowledge or ability, reduce uncertainty in the decision making process, and describe the state of things or events that occur. Accounting information as a basis for business decision making in health care organizations. One function of accounting is to communicate economic information, namely the economic reality of an organization. In this study, researchers wanted to find out exactly how accounting information was used by health service organizations in developing their business.

## 1 INTRODUCTION

Accounting has become an inseparable part in the trade and management system of a business unit and the life of mankind (Amirya et al., 2012a). Accounting information can be a reliable basis for economic decision making in company management, including market development decisions, pricing and others (Amirya et al., 2012b). Without an accounting department, it is impossible for an organization to operate in a cost-effective way. Generally Accepted Accounting Principles (GAAP) are a set of accounting principles, standards, and general procedures used by business organizations in preparing financial statements. Simply stated, GAAP is a common method used to record and report accounting information (Amirya et al., b). The application of accounting rules will follow accounting standards or policies in each country. RS Foundation, for example, will present financial reports referring to the Financial Accounting Standards / SAK through PSAK 45 (Astutiningrum. et al., 2014). Likewise the government HOSPITAL must refer to Government Accounting Standards (SAP) other related rules

Accounting also functions as an information system that generates reports to parties concerned with economic activity and company conditions (Carruthers, 2012), for example to find out the back and forth of a company can be seen from the company's financial statements (Creswell, 2015). In

addition, accounting also functions as a basis in calculating a company's tax and can be used as a material consideration for investors who want to invest their assets (DiMaggio and Powell, ). So in other words accounting is a reflection of a company. Accounting collects and processes company transaction data to fulfill several things such as:

- The need for external parties for financial information relating to the company and compliance with statutory provisions.
- Internal or management needs for information needed to plan, carry out and control company operations.

Sections in accounting such as bookkeeping and financial statements provide various information about various kinds of financial transactions that occur in the company (Hansen and Mowen, 2012). The types of health organizations in Indonesia, some of which are:

- Central government health organizations
- Local government health organizations
- Hospitals, clinics and health centres
- Technical implementation unit
- Private health organizations

Benefits of Accounting for Companies:

- Management is an internal party that is directly related and urgently needs financial information to control, coordinate, and plan.

External parties that have a direct relationship with the company, including investors (owners), creditors, customers, employees, and the community. They are interested in corporate financial information with different benefits, including:

- The owner's interest is to determine the attitude of holding shares or releasing them.
- Creditors' interest in deciding credit to companies can be extended or enlarged.
- Customers (customers) have an interest in evaluating business relations with the company.
- Employees have an interest in knowing the rights that can be obtained from the company.
- The general public has an interest in the general and social aspects of the company.
- The company and various institutions under its control need information on the allocation of resources. This information is used to determine the company's activities, determine tax policies, and as a basis for preparing national income statistics.

Health service organization is an organization whose main activity is to provide health services to the community with one of the goals to be achieved is to provide quality or quality health services (Harrison et al., 2012). Health service organizations such as community health centers, hospitals, integrated service centers and so on.

## 2 LITERATURE REVIEW

UU no. 36 of 2009 health development aims to increase awareness, willingness, and ability to live healthy for everyone in order to realize the highest degree of public health, as an investment for the development of human resources that are socially and economically productive (Harrison et al., 2012). Health accounting is an activity that cannot be moved by a series of management activities, both in the form of complete and simple accounting. The objectives of health accounting in health organizations are:

- Provide information needed to manage the organization appropriately, efficiently, and economically;
- Provide information that allows the management of the organization to report the implementation of responsibilities.

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The measurement parameters for the success of health organizations include; the amount of allocation of funds obtained, an increase in the degree of public health, the number of people served, and overhead costs that can be minimized (Susandi et al., 2017). Health organizations must be able to calculate economic costs and social costs, this causes accounting to be accepted as a science needed to manage health affairs. The purpose of financial statements is to provide information regarding financial position, performance, and changes in the company's financial position that are useful for users in economic decision making. Components of health financial statements include (Juwenah and Astuti, 2016): balance sheet, income statement, statement of changes in equity, statement of cash flows, and notes to the financial statements. With the principle of measuring the success of health organizations that includes, the amount of allocation of funds obtained, increasing the degree of public health, the number of people served and overhead costs that can be minimized, is expected to improve the performance of health organizations. All the community has the right to get good service, without there is a difference.

### 2.1 Scope of Health Organization

Accounting is the process of identifying, measuring, recording, reporting economic transactions of an organization that is used as information in the context of economic decision making by those who need it (Susandi et al., 2017). Health organizations use several parameters as a measure of success among others: the number of people served and the overhead that can be minimized. Health accounting is an activity that cannot be moved by a series of management activities, both in the form of complete and simple accounting. The objectives of health accounting in health organizations are:

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## 2.2 Health Services Organization

Health service organizations are institutions or legal entities whose operational activities are providing health services and producing drugs.

- The hospital is an integral part of a social and health organization with the function of providing plenary, curative and preventive health services to the community, as well as the outpatient services it provides to reach out to their families at home, as well as outpatient services.
- Puskesmas is a functional health organization that provides comprehensive and integrated services to the community in its working area in the form of basic health services and carries out community participation and health development efforts in certain work areas.
- Polyclinic/joint doctor practice is an institution or organization consisting of several health workers who work and open health care practices under one roof, including drug delivery services, health consultation services, and health inspection services
- The practice of an individual doctor is a type of health service that consists of a doctor accompanied by several health workers who work in opening public health service practices that aim at organizing health services for the community at large, which includes: health consultations, medical examinations, provision of medicines, and provision of follow-up referrals medical treatment for patients who need it.
- Pharmacy is a form of public health service that provides services in the form of drug sales.

## 2.3 Health Financial Report

The purpose of financial statements is to provide information regarding financial position, performance, and changes in the company's financial position that are useful for users in economic decision making (Triyuwono and Wittig, 2009). Components of health financial statements include: balance sheet, income statement, statement of changes in equity, statement of cash flows, and notes to the financial statements. Reference to the preparation of hospital financial statements:

- Capital market regulatory body regulations relating to accounting and financial statements;

- The basic framework for the preparation and presentation of financial statements, PSAK, and PSAK interpretations;
- International accounting standards, statements of financial accounting standards, international public sector accounting standards, international financial reporting standards;
- Regulations relevant to financial statements.

## 2.4 Cycles and Elements of Health Financial Reports

The accounting cycle is the process of providing an organization's financial statements for a certain period. The stages are: recording, ending and reporting. Elements of health organization financial statements include:

- Elements of the statement of financial position (balance sheet) health, is a report that provides a complete picture of the entity at the point in time, its components: assets and liabilities of equity.
- The health and loss/surplus/defisit statement element is a report that describes the financial performance of an entity in an accounting period, its components of revenue, costs, surplus, deficit.
- The health cash flow statement element is a report that describes changes in cash position in an accounting period, its components are cash flows from operating, investing and financing activities.

## 2.5 Analysis of Health Performance

Performance indicators are quantitative and qualitative measures that describe the level of achievement of goals.

# 3 RESULT AND DISCUSSION

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### 3.1 Cycles and Elements of Health Financial Reports

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### 3.2 Health Cost Accounting

Cost accounting is the process of determining full costs and additional costs for service providers and goods for patients and the community. The cost accounting process includes:

- External parties (external), namely meeting the characteristics of financial accounting which are part of financial accounting
- Internal parties, namely meeting management accounting characteristics that are part of management accounting

### 3.3 Health Organization Cost Accounting Methods

Basic measurement of input (input):

- Pure historical financing: historical costs only flow through the inventory account and show all costs that have been recorded, while actual costs represent the inventory used.
- Normal historical financing: using historical costs, especially BBL and TKL, in this case overhead is assessed by activity-based predetermined overhead rates.
- Calculation of standard costs, all processing costs are applied or valued to inventories using predetermined prices and standard quantities.

### 3.4 Inventory Valuation Method

Application of health cost accounting system:

- Throughput method: in this method only BBL is included in inventory while other costs are incurred during a certain period. This method is incompatible with GAAP and is not accepted for external reporting.
- Direct or variable methods: in this method only variable manufacturing costs are included in inventory. Although there are benefits and disadvantages to external reporting and no adjustments, direct costs are specifically received in external reporting.
- Full absorption method: refers to the calculation of the full cost and the absorption cost calculation, which is the traditional method where all manufacturing costs are included in inventory. This method is often used in internal reporting.
- Activity based methods: provide accurate product costs, by tracking costs to products through activities or by describing the resources needed for the activities and activities required by the product.

### 3.5 Health Activity Financing System

#### 3.5.1 Analysis of Service Costs and Unit Cost Calculations

The main accounting review focuses on the validity and reliability of financial reporting and the efficiency and effectiveness of operations.

#### 3.5.2 Market Analysis

The grand design of the institutionalization of cost calculation is an effort to civilize the cost calculation process with the aim of achieving the level of efficiency expected to be costing includes tracking the collection of costs to the cost object and allocating

a set of costs for which there is an object cost. Costs can be divided into three, namely:

- Fixed costs: costs whose total amount is affected by changes in organizational activities and unit costs. Example director's salary.
  - Committed fixed cost: fixed costs incurred because of past decisions and related to long-term operations. Example: depreciation costs, insurance costs.
  - Discretionary fixed cost: costs arising from the decision to make a budget regularly. Example: research and development costs.
- Variable costs: costs whose total amount is affected by changes in activities and unit costs do not change even though activities change. Example: raw material costs, BTKL.
- Semi Variable costs: costs that have fixed and variable elements. There are two semi variable costs, both direct and indirect.

### 3.6 Health Service Financing Methods

#### 3.6.1 Retrospective Payments

Retrospective payments are payments that are approved and made after the service has been performed.

- Fee for service payments per item: patients or funders pay in full to the health care provider after the service is completed
- Fee for service payment-payment per day: uniting all services performed daily so that payments are made in a lump sum for each day when staying.

#### 3.6.1 Prospective Payments

Prospective payment is agreed payment and is carried out further before the provision or service is made regardless of the accrual costs incurred by the health service provider.

- Capitation payments, made in fixed amounts per person for a certain period of time, usually one year
- Payment with a global budget, health service providers are given a budget, usually at the beginning of the year, to cover all available services.

### 3.7 Health of Organizations

The measurement parameters for the success of health

organizations include; the amount of allocation of funds obtained, an increase in the degree of public health, the number of people served, and overhead costs that can be minimized. Health organizations must be able to calculate economic costs and social costs, this causes accounting to be accepted as a science needed to manage health affairs. Thus the nature of health organizations in accounting aspects is related to:

- The purpose of organization; Improving the community's health status independently, integrated, and competitive in a conducive and healthy environment.
- Sources of Funding; government budgets, service user community contributions, allocation of foundation/owner/donation funds.
- Accountability; the health organization is responsible for the body that houses it.
- Accounting System; accounting is influenced by the diagnosis mechanism of related groups (DRG) and the strength of competition (referring to managed care).

#### 3.7.1 The Purpose of Accounting in Health Organizations

- Provide information needed to manage the organization appropriately, efficiently, and economically regarding the activities and allocation of resources entrusted to the organization (management control);
- Provide information that enables the organization's managers to report the implementation of management responsibilities appropriately and effectively along with the use of the resources under their authority to the public or the institution responsible for them (accountability).

#### 3.7.2 The Benefits of Accounting in Health Organizations

- Guidelines for decision making, especially resource allocation, determination of program costs, determination of service rates, standard service costs;
- Assist the selection and binding of effective and efficient service activities.

### 3.8 Health Financial Statements

Provide an overview of the company's financial position, performance, changes in equity, and cash flow that is beneficial for most users of the report in

order to make economic decisions and show management's responsibility for the use of resources entrusted to it. In detail, the objectives of the financial statements are:

- Making investment and credit decisions;
- Assess the prospect of cash flows (operational, investment and financing);
- Information on company resources, claims for those resources, and their changes.

#### 4 CONCLUSION, SUGGESTIONS AND LIMITATION

Measures of success of health organizations include; the amount of allocation of funds obtained, an increase in the degree of public health, the number of people served, and overhead costs that can be minimized. Health organizations must be able to calculate economic costs and social costs, this causes accounting to be accepted as a science needed to manage health affairs. The objectives of accounting in health organizations such as: (1) provide information needed to manage the organization appropriately, efficiently and economically regarding the activities and allocation of resources; (2) provide information for managers to report the implementation of management responsibilities appropriately and effectively. Components of health financial statements include: balance sheet, income statement, statement of changes in equity, statement of cash flows, and notes to the financial statements.

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