CHAPTER 2
HOSPITAL AND COST ACCOUNTANCY

2.1 DEPARTMENTS IN HOSPITALS

For a proper understanding of the working of a hospital, it is necessary to give a brief sketch of the functioning of different departments in a hospital. The functions performed by each department indicates the nature and complexity of the hospital activities. The diversified nature of the different departments points to the need of proper and adequate co-ordination and control procedures in hospital. The designing of a Cost Accountancy System suitable for a hospital requires a thorough analysis and understanding of the nature of activities in each of the various departments in the hospital. The nature of activities in each department has a weighing influence on the amount of cost incurred in that department. The nature of Cost Accounting procedures in respect of various elements of costs also depends largely on the functions of different departments in a hospital. The description of the departments also include creative suggestions to make them more efficient and effective.

1. ACCIDENT AND EMERGENCY DEPARTMENT

This department provides emergency or casualty services. An emergency, whether it strikes an individual or a group of individuals in a community, is a crisis. The acid test of a hospital is the promptness, efficiency and the effectiveness with which it can rise to the expectations of the community to deal with that crisis. It is, therefore, the Hospital Administrator's prime concern and responsibility to organise, plan and gear up the Emergency Services of his hospital to such a high level of performance as to achieve this goal. This department
provides round-the-clock, immediate diagnosis and treatment for illness of emergent nature and injuries from accidents, poisoning, mental accident, etc. Emergency service is acquiring increasing importance due to modern problems arising out of urbanisation, transportation and mechanisation. The best services must be provided to the patients in the Emergency wards as the patients and their relatives are under emotional strain and surcharged with suspense and anxiety about the consequences of the diseases or calamity that has come up suddenly.

Following principles should be followed in rendering emergency services in hospital:

(a) Formation of well-trained, efficient and well-knit emergency teams.

(b) Rendering Emergency treatment on the spot where it occurs or wherever patient is brought.

(c) Patient once received at a point should not be unnecessarily moved particularly at night except to the operation theatre or to delivery rooms.

(d) Each of such places so ear-marked should be equipped to deal with all types of emergencies without resorting to go out to fetch equipments or medicines.

(e) Creation of composite and an efficient system of mobile emergency teams to attend to calls.

(f) Creation of 'Survival Teams' within the hospital to take over the nursing care of 'very critical cases'.
(g) Periodical rehearsing of these teams to keep them at a high level of proficiency at all times.

(h) Making readily available at all times facilities like the following:
   i) Waiting areas
   ii) telephone services
   iii) toilet facilities
   iv) drinking water facilities
   v) receptionist and general information counter for anxious relations.
   vi) easy accessibility to police
   vii) doctors' examination cubicles
   viii) stores
   ix) Brought-in-dead rooms
   x) On the spot observation beds
   xi) Laboratory, blood bank, pharmacy, X-ray, ECG facilities etc.

Simple cases after administering preliminary treatment are discharged with instructions to attend Out-patient Department as a follow-up measure. Cases of serious nature are admitted to emergency wards to provide immediate medical care. Such patients are either discharged after 2-3 days or are transferred to permanent In-patient wards.

Following diagram shows the procedure in an Accident and Emergency Department:
FIG. 1

Registration

Examination

Admission

Keeping under Observation

Treatment and Dressing

Discharged or transferred to In-patient Dept or Death
2. OUT-PATIENT DEPARTMENT (OPD)

The Out-Patient department is one of the most important departments in a hospital. This department is the bridge as well as the first contact point between hospital and community. Eighty per cent of the population who avail of the hospital services return home from the Out-Patient Department. It is therefore very important that the services rendered in this department are of the highest order and play an important role in the achievement of the objectives of the hospital. It is one of the areas in hospital services where great revolutions occur. A good out-patient department and its services, correlated with and as adjunct to preventive and promotive health services, can be a potent force towards improving the health status of the community which the hospital serves. The status, prestige and goodwill of a hospital can be evaluated from the efficiency and effectiveness in the functioning of its Out-patient department.

The functions of the department are to provide diagnostic, curative, preventive and rehabilitative services on an ambulatory basis. All the patients suffering from diseases of minor, serious, acute and chronic nature are examined in this department. The working procedure of a typical Out-Patient Department in a hospital can be diagrammatically represented below:
Following points are worth mentioning in connection with the proper functioning of the Out-Patient department:

(a) The department is so planned that the building is separate from the indoor area.
(b) The department should be well and closely connected to the laboratories, X-ray and other supportive services.

(c) It should have enough accommodation to avoid congestion and overcrowding.

(d) Even distribution of work-load among the various specialities should be ensured. Any scientific arrangement in this respect can be made by taking into account all the relevant factors.

(e) Timings of the department should be such as to ensure convenient service to the community.

(f) Arrangements be provided to attend to the stragglers who arrive after the registration is closed, rather than returning them.

(g) Arrangements to give preference in attending to the seriously ill, old, infirm and children and critical cases, out of turn.

(h) A sympathetic and human approach by all the staff particularly the lower level staff.

(i) Special periodic orientation training of personnel working in the department to keep them at a high pitch of proficiency and motivation.

(j) Provision of pleasant environments, public amenities, adequate seating and refreshment arrangements.

(k) Paying personal visits to the department by the Hospital Administrator frequently, especially during peak hours to assess the situation himself and detect any problems requiring remedial action.
(1) Display of selected health material in the form of posters, charts etc., closed circuit Television system etc., to utilize the waiting time of the Out-patients to expose them to health education.

To sum up, the Hospital Administrator must himself be on the look out for every opportunity that he can avail of in projecting not only the good image of the hospital but also its bonafide concern to serve the community best.

3. **IN-PATIENT DEPARTMENT**

The in-patient department of a hospital is regarded as the G.C.M of the hospital, meaning thereby that it is the Greatest Common Multiple in terms of cost. The department is like a temporary home for the patients and should, therefore, suit the cultural background from which community the patients come. An inpatient department consists of a number of wards. Each ward has a number of beds. The total number of beds in each ward depends on many factors such as the total number of beds available in the hospital, the number and nature of medical specialities offered, the number of in-patients admitted under each speciality, etc. A ward may be a special ward or a general ward. The general or special nature of a ward is related to the rent levied from the patients as well as the nature of medical speciality. Each of the general and special ward is again classified into Male and Female ward. The classification of wards based on these three factors is depicted in the following diagram:
The control, supervision and maintenance of all the wards in a hospital are in the hands of a Nursing Superintendent. Each of the wards is under the charge of a sister-in-charge who is assisted by a team of nurses and
nursing aids. The sister-in-charge of each ward is directly accountable to the Nursing Superintendent. Reputation of the hospital depends upon the efficient professional and administrative skills of the nurse.

The plan of arrangement of beds in each ward is usually of two types. In the older hospital, the ward used to be of pavillion type which means that each ward would be a large one with 30 or 50 beds in one hall with a nursing station in the middle and facilities at the end. This pattern requires a fewer number of nurses. On the other hand, the other pattern of ward in modern hospital is distribution of beds in a cubic pattern and such cubicles could be one bed, two beds, four beds, six beds, etc. Such an arrangement not only provides privacy, avoids glare, reduces the chances of infection but also more acceptable to the patient. However, this distribution of beds requires more nurses. To strike at a balance between these two types of ward plans, a few new ward designs are being in the offing. A few such designs which have been adopted are the circular, semi-circular or L-shaped ward pattern. Such a design has the best of both the types. The patient accommodation is in the cubicle pattern and the number of nurses required is still probably the same.

Each ward must have the following facilities:

(a) nursing station having the facilities for toilet, office work by doctors and nurses, cupboard for medicines and for the safe custody of patient case sheets.

(b) adequate storage space for dressings, linen, general stores etc.

(c) a ward pantry, duty room for doctors, patient toilets, and waiting space for the patients' relatives.
(d) isolation rooms, dirty and clean utility rooms, treatment room etc.

As a step towards maximum utilization of available space, every effort should be taken to arrange the facilities required in each ward very intelligently and scientifically. Many important and far-reaching measures can be taken while at the planning and designing stage of the wards in the In-patient department. Each medical speciality ward should be designed in such a manner that it shall include all special requirements of the particular disease, its treatment and nature of nursing required.

4. INTENSIVE CARE UNIT

An intensive care unit in a hospital is a special care unit in which the nature of care provided is either very specialised or intensive or both. Some of the patients admitted to hospitals require acute, multi-disciplinary and intensive observation and treatment. An intensive care unit is meant for such patients. Like the emergency services, this unit requires much better staffing pattern - one nurse for 1 1/2 bed per shift. The staff needs to be specially trained to work in this unit. The patients in this unit are subject to a number of intensive procedures.

Following are the facilities required in an intensive care unit:

a) emergency power generator system
b) provision of clinical engineering system responsible for electrical safety.
c) arrangements of heating, ventilation, and air conditioning supply.
d) Oxygen and vacuum connections to avoid any leakage.
e) Water facilities.
f) provision of all the necessary and vital equipments and instruments.
g) provision of special sterile or clean procedure.
h) provision of life-saving and emergency medicines.

5. **OPERATION THEATRE**

With recent technological advancement in medical science and increasing expectation of the people, modern surgery has become a complex and expensive affair. At the present time, about 50% of the hospital beds are surgical beds and about 50% to 60% of the inpatients require surgical treatment. Surgical facilities represent a central life saving activity. Its performance is also dramatic, and its successes and failures are highly visible. The activities carried out in the operation theatre department can make or mar the reputation of the hospital.

Following is a brief summary of the important and necessary considerations which require special emphasis with respect to the Operation Theatre department:

A. **ZONING**

It is universally agreed that operation is to be performed under the most aseptic conditions. To ensure this aseptic condition, the operating department is divided into four distinct zones: Protective zone, clean zone, sterile zone and disposal zone. These zones are bacteriological zones of varying degrees of cleanliness. 100% sterility is ensured in sterile zone. The facilities available in these zones are as follows:
**Protective Zone**

It usually provides facilities like Reception, Waiting Room for patient's relatives, Changing Room, Pre-anaesthesia Room, Store Room, Autoclave, Trolley Bay, Control area of electricity etc.

**Clean Zone**

It provides facilities such as Preoperating room, Recovery Room, Theatre Work Room, Plaster Room, Blood Storage and Frozen Section Room, X-ray Unit with dark Room, Nurses' Duty Room, Doctors' Work Room, Sisters' Work Room, Staff Work Room, Anaesthesia Store.

**Sterile Zone**

This zone has facilities like Operating Room, Scrub Room, Anaesthesia Room, Instrument Sterilization and trolley laying area.

**Disposal Zone**

This zone provides facilities like Dirty wash up Room, Disposal Corridor and Janitor's closet.

B. **NUMBER OF OPERATING SUITES**

The number of operation theatre required for a particular hospital can be worked out by studying in great detail the following factors which are more or less quantifiable:

- Type of Hospital
- Hospital policy and procedures
- Hospital bed compliment
Number and type of surgical patients
Number and type of Surgeons
Number of operations per day
Expected Average Length of stay of Surgical Patients
Expected Turn Over Interval in Operation Theatre
Average Time of Operation
Estimated time for cleaning between operations
Time allowed for staff breaks
Time allowed for maintenance of Operation Theatre
Amount of time operating suites can be equipped and staffed and available for use.
Amount of time reserved for emergency use
Allowance for septic patients

C. LOCATION OF OPERATION THEATRES

The location of operating suites is dictated by the number of suites to be provided. The operation theatre complex can be conveniently located in the ground floor. The Operating department should be easily accessible to the Central Sterile Supply Department, Emergency Department, Theatre Sterile Supply Unit and Surgical Wards. It should be independent of general traffic and should have maximum protection from sun, heat, noise, dust and wind. However, the most recent concept is that Operating suites can be located anywhere as the atmosphere and environment of operating suites are under controlled conditions.
D. ESSENTIAL SERVICE

Efficient lighting of an operating suite is essential to enable the surgical team to achieve their best. There must also be an emergency electric Generator.

Air conditioning helps in maintaining the aseptic condition of the operating room by letting only controlled air to pass inside. It also improves the efficiency of the surgical team by creating a pleasant environment and helps in maintaining the vital functions of the patient by providing the optimum comfortable environment.

There should be positive pressure ventilation in the operating suites. The pressure grading should be highest in the sterile zone, gradually diminishing towards the clean, protective and disposal zones in the descending order.

6. THE X-RAY DEPARTMENT

X-ray is a useful invention of the age and has become an essential tool for our way of life. Almost every patient has to attend this department either for the radio-diagnostic or radio-therapeutic purposes. This department is concerned with radiological investigation of casualities, outpatients and inpatients. It is under the clinical direction of a specialist, known as a radiologist. The department is staffed by technicians known as radiographers, and while the bulk of the work is done by appointment, it also provides emergency cover throughout the day and night.

Requests for X-rays are made on special forms and these should always be accurately and completely filled in. When the X-ray examination has been
completed, the films will be reported on by the radiologist. The assistants in the department help him to prepare the report in the appropriate form which is sent with the X-rays to the doctors, ward or department requesting the examination. A copy of the report will be filed in the X-ray department.

When the report and X-ray has reached the medical records department, the report is fixed to the investigation sheet in the medical records. Once the films have been seen by the doctor responsible for the clinical care of the patient in the out-patient department, they are returned for filing, but the films of in-patients remain in the ward until the patient is discharged.

7. **LABORATORY DEPARTMENT**

This is another important supportive service which examines and tests various samples of blood, urine, sputum, foeces etc. for the presence of pathogenic infection and organism which causes various diseases. This department also carries out a series of other investigations ordered by physicians, surgeons, etc. The success of medical prescription would depend upon proper laboratory diagnosis. It provides round the clock service. It provides facilities for examinations in clinical chemistry, microbiology, haematology, serology, histopathology and many others.

This department is headed by a medical person, known as pathologist, who is qualified in the pathology branch of medicine. He is assisted by a team of qualified and experienced laboratory technicians and aides. It must always be ensured that the technicians are really doing the job because a minor mistake on their part may ruin the life of the patients.
There is a need for constant supervision over the functioning of these laboratory services.

Requests for the necessary examinations are made by the doctors on proper, standardised and printed forms. Results of the examination are entered on the reports. Reports are prepared in duplicate. One copy is sent to the doctor concerned and the other is filed in the department alphabetically according to the names of the patients. The copy sent to the doctor after his verification is filed in the case sheet of the patient. In the ultimate, the laboratory report forms an important part of the medical records of the patient.

8. **PHARMACEUTICAL SERVICES DEPARTMENT**

The pharmaceutical department in a hospital has the following functions to be performed:

a) **Dispensing** of drugs and medicines as per the prescriptions of the medical staff of the hospital.

b) **Management** of the Medical Stores which include
   1) purchase of medicines and other allied stores
   2) providing for proper storage of such medicines
   3) Distribution of medicines
   4) Maintenance of proper records of drugs purchased and the distribution thereof.

c) **Manufacture** and distribution of medicaments and products such as transfusion fluids, tablets, capsules, stock mixtures etc.

d) Providing **drug monitoring services** by studying various effects of drugs administered to the patients and recording them suitably.
e) Establishment and maintenance of Drug Information Centre.

f) Patient Counselling service while supplying drugs especially from the out-patient department.

g) Maintaining liaison with medical staff, nursing staff and patients, and serve them readily with the information on various aspects of drugs and their proper usage when required by them.

h) Render such other services as may be required by the hospital administration from time to time.

The following diagram shows in an abstract manner the pharmaceutical services indicating boundaries or interfaces between the Pharmacy department and several other departments and functions in the hospital. The arrows represent interactions between pharmacy department and also the flow of information and material.

The Pharmacy department is headed by a Chief Pharmacist. He is assisted
by a team of pharmacists. He has to ensure that the pharmacists functioning in different areas such as central dispensing area, Patient care areas and direct patient care areas carry out their assigned functions and duties efficiently. He should be aware of his responsibility towards his staff on the one hand and the hospital administration on the other. The Chief Pharmacist is directly accountable and responsible to the Medical Superintendent.

9. **Nursing Services Department**

The aim of the Nursing Profession is to serve the society so that its members are healthy and contributory and participate in the goal of national development. Nursing personnel is one of the most important assets of any health care system and represents considerable "National Investment". Besides providing supportive services to Medical Care, nursing services play an important role in promotive, preventive, curative and rehabilitative activities and serve all age groups in the population from womb to tomb with specialised care adopted to the particular needs of each group.

Reputation of the hospital depends upon the efficient professional and administrative skills of the nurse. Her role here is vital and touchy. She has to exert all her faculties in managing the sensitive areas. She is the loyal friend to the doctor, affectionate mother—substitute to the patient, and co-ordinator of all the activities of the ward personnel.

Nursing department functions under a Director or Superintendent of Nursing. She controls, supervises, co-ordinates and directs the nursing services in a hospital. She allocates and distributes the work among the
members of her staff over the other important departments such as Emergency department, Out-patient department, In-patient department, Intensive Care Unit, Operation theatre and Delivery Room. The Nursing Superintendent is directly responsible and accountable to the Medical Superintendent in the hospital. The nursing staff besides providing patient care has also to do a large volume of paper work which becomes an important part of medical records of the hospital.

A new concept of hospital nursing audit is worth mentioning at this juncture. Hospital Nursing Audit is a retrospective evaluation of patient care given in a hospital through analysis of nursing components of medical records. It is therefore a review of the professional work of the nurses in hospitals. The audit reveals the true nature of quality of patient care. In this audit, a debit-credit concept can be introduced. The debit items are—death of patients (gross and net), complications, infection, errors in procedures, absconded patients and patients left against medical advice, etc. The credit items include recovered patients, improved patients, cured patients, health education activities, preventive services performed etc.

10. **Dietary Services Department**

The medical food service management in hospital is very diverse and complex in nature. The important objectives of the dietary department are:

a) To provide direct, individualised and total nutritional care for patients on both regular and modified diets; and

b) To provide meals for personnel guests, for different personnel of the hospital and for special activities in a variety of settings.
To achieve the objectives, the dietary department has to perform the following functions:

i) To plan menu after considering the population to be served - their eating habits and the resulting food habits, nutritional needs of individuals and groups, and a knowledge of wide variety of food, acceptable combinations, and preparation and service techniques.

ii) To plan and purchase the necessary equipments and to exercise maximum care over their use.

iii) To purchase raw food after considering the food quality, food grades, food processing and yields, food availability and marketing conditions, purchasing systems, specifications writing, ordering, receiving and storing techniques.

iv) To produce food on cook-serve system

v) To serve food to individual patients as prescribed by physicians.

vi) To manage the personnel in the department, and

vii) To make the necessary arrangements to raise the funds needed to run the department most effectively and efficiently.

The department is under the supervision of a dietitian. He allocates the work of the department among the different categories of employees. He has to see that co-ordination is achieved between the medical staff, other staff, service staff and patients to achieve the objectives of the organisation.
11. **CENTRAL STERILE SUPPLY DEPARTMENT**

This department is also called in certain hospitals as Central Sterile Room. This department is the focal point for processing, sterilising and dispensing of practically all sterile equipments and sets required in the hospitals. This department has a crucial role in bringing down the hospital infection which has been identified as one of the commonest cause of increased average length of stay of patients in hospitals. This department is therefore particularly economical from the patient point of view of 'opportunity cost' to the patients particularly undergoing surgical procedures where the chances of post operative infection, hospital infection and cross infection can be reduced.

The objectives, functions and activities of the department could be as under:

a) To process, maintain supply and control of sterile articles, equipments and standard sets for wards, departments, sections, operation theatres, etc.

b) To provide teaching and training facilities for the training of department assistants and to participate in in-service education programme of all hospital personnel.

c) To undertake operational research in improving sterilising practices and to participate in supply and equipment research in an effort to provide the most suitable material available for patient care.

d) To take an effective part in Hospital Infection Control Activities.

e) To replenish the stock in Hospital Bank.
The responsibility for the supervision of sterilising task should be closely defined, clearly understood, undivided and vested in one responsible officer in the department. A good illustrated procedure manual is essential to the effective operation of a well-functioning department.

12. MEDICAL RECORDS DEPARTMENT

Medical Records department maintains Medical Records in a hospital. Medical Records contain important medical facts relating to the patients who are treated in the various medical departments in a hospital. A continually updated record will focus the clinician's attention on the fundamental medical problem presented by the patient's condition and will assist him at every point to develop the correct strategy to deal with this problem. Medical Records act as instruments of teaching and research. Medical Records are also sources of statistics. They are aids to planning and decision-making by management.

The important functions of the department are enumerated below:

1. To manage and initiate procedures for patient services.

2. To execute administrative policy relating to the maintenance of medical record and hospital indices of patients.

3. To advise the management on any technical aspects of recording procedures.

4. To provide requisite statistical managerial data either for routine or for adhoc studies.
5. To give help to those responsible for planning new departments or sections of the hospital in which patient service activities are carried out.

6. To provide a high standard of patient documentation to meet the particular needs of medical staff.

7. To supply statistical information and assistance with surveys for research and medical administration purposes.

8. To provide well-organised arrangements for medical records handling, so that notes are complete and available when their use is necessary for the patient's treatment.

9. To deal with those aspects of the hospital organisation where arrangements for the patients' progress to and through hospital are devised and supervised - appointments, admission, enquiries, transmission of information between departments or between doctors.

10. To devise solutions for problems of patient administration.

The department is headed by a Medical Records Officer who is assisted by a team of staff. Since this department is one of the most important departments in a hospital, the co-operation and efficiency of the staff have a great impact on the success of hospital service activities.

In a hospital with a large medical staff, it is preferable to have a Medical Records Committee consisting of representatives of medical and nursing staff, Medical Records department and the hospital administration. It is the duty of the committee to see that accurate and
complete medical records are kept for every patient treated in the hospital by formulating broad policies and programmes with regard to completion of forms, records and reports.

13. HOSPITAL ENGINEERING DEPARTMENT

The Hospital Engineering Department occupies a unique position in the whole hospital set up. It deals with all sorts of repairs and maintenance work in the hospital. The activities of the department can be broadly divided into the following two categories:

a) Building Services which comprise of water supply, Civil Mason, Carpenter, Plumber work, Electricity, Refrigeration and Air-conditioning, Hot water, Steam Supply, Infection Control and Construction, and Operation and maintenance of these systems. It also includes repairs and maintenance of furniture and fixtures.

b) Bio-medical services which include repairs and maintenance of special purpose Medical Instruments which are of Electronic, Electric, Hydraulic and Mechanical in nature.

This department undertakes both preventive and break down maintenance. It has to work out an effective system of functioning. Timely and proper execution of work by this department is a pre-requisite for the success of the hospital. The steady and further advancements of modern Medical technology, Medical Architecture and Environmental Health Planning call for due and extended role of Hospital Engineering. The success of this department lies, to a great extent, on the effectiveness and efficiency of a team of expert, qualified and experienced staff. The members of staff of this department must be persons from almost all disciplines of Engineering.
14. **HOUSE-KEEPING DEPARTMENT**

The hospital sanitation has become a topic of utmost concern. It is vital that the principles of environmental health are adhered to and that the patient will not leave the hospital sicker than when he arrived. Thus the emphasis on the importance of house-keeping is deliberate, as efficiency in it leads not only to the comfort and well-being of the patients, but it contributes significantly to the profitability of the hospital.

The actual work of a housekeeping department of a hospital includes cleaning and maintaining articles, rooms, walls, furniture, beds, floors, etc. The house-keeping has activities in all the sections of the hospital which involves keeping the premises, equipments and facilities clean and orderly at all times. It also includes interior decoration which deals with lighting, ventilation and heating. It also deals with pest control and infection control.

A house-keeping department in a hospital is organised in the manner indicated below:
Every large sized hospital will have its own laundry department to cleanse linen and make them ready for use in the different in-patient wards of the hospital. Since linen and the laundering of it is such an expensive item, it becomes imperative to consider the laundry department as a separate service cost centre.

The principal functions of a hospital laundry are:
1. To cleanse, by the use of thermal disinfection washing process, all fouled or infected linen, normal soiled linen and other garments used in the hospital, and

2. To dry and finish them at the lowest cost consistent with a standard of finish acceptable for their use and within a time span to suit the user departments.

The production sequence in a hospital laundry include -

- Reception
- Sorting
- Classifying
- Washing, hydroextracting and drying
- Calendering and Pressing
- Distribution

Traditional dhobis are a good choice for manning the laundry department. The department may have one supervisor, his deputy and other clerical staff. Staff for linen collection and distribution, linen making and linen mending will have to be separately provided for depending on local circumstances. Work study will however precisely determine the staff requirements.

The location and layout of the department merit special consideration in that it must have easy access to a boiler house, all wards, operation theatres, etc.

THE LINEN ROOM

A linen room in a hospital is the central depot for all linen and from it sufficient clean articles, in good condition, are distributed throughout
the hospital. Although hospital laundry deals with laundering of linen, it is preferable to have a separate linen room attached to the laundry. A separate linen room in the laundry section provides for the receipt of soiled linen of all types, the safe storage of cleaned linen and the prompt issue of cleaned articles to the user departments. It is very important to have a central linen room since launderable linen is required throughout the hospital on a regular basis. Considering the investment in hospital linen, it is imperative on the part of the hospital authorities to maintain and keep linen of all types and also to exercise rigid control over the use of linen.

Since linen room is an essential and important place, much thought should be given to its situation and planning in order that the work of issue, collection, storage and upkeep of the articles can go on as smoothly as possible. Ideally, the linen room should be situated with direct and easy access for the loading and unloading of linen baskets to and from the laundry, and for the distribution of linen throughout the hospital.

16. **ADMINISTRATION DEPARTMENT**

The Administration Department in a hospital is a nerve-centre which controls the multi-varied activities of the hospital. The more important functions of this department are enumerated below:

a) To plan, organise, coordinate, evaluate and implement various hospital programmes.

b) To co-ordinate the activities of the different departments of the hospital into a unified whole to achieve the objectives of the hospital.
c) To exercise maximum control over the use of available resources like men, money, machine and materials.

d) To achieve cost-effectiveness and cost reduction to make the hospital services available within the reach of common man.

e) To introduce innovative approaches, appropriate technology, computers, quantitative management techniques etc. wherever possible and practical.

f) To introduce professionalisation in Hospital Management.

g) To introduce Hospital Organisation Development Programme which envisages a planned change in the hospital organisation to make effective in problem-solving and coping with the environmental problems.

h) To discharge usual managerial functions like Planning, Organising, Decision-making, Controlling etc.

Besides above, this department is also engaged in the usual work of an administrative nature.

The department is in the charge of a Hospital Administrator. He is the Supreme Commander of the hospital. He should be in close liaison with the medical staff, the nursing staff, the para-medical staff and other staff of the hospital. He is assisted by a team of Hospital Managers and Hospital Supervisors. In certain hospitals, the Medical Superintendent himself acts in the capacity of Hospital Administrator. In other hospitals, two different persons adore these coveted positions. Preferably, the Hospital Administrator must be a full-time professional
manager who should possess the requisite skill and knowledge to manage the most complex type hospital organisation.

17. **ACCOUNTS DEPARTMENT**

The Accounts department in a hospital is considered to be the mine-house of information relating to the financial activities of the hospital. The important function of this department is to accumulate, communicate and interpret historical and projected data relating to the financial performance of the hospital. The department supply the management at regular intervals with financial reports such as Balance Sheet, Income and Expenditure Account, Supplemental Schedule of changes in accounts, Details of income and expenses etc. The department also prescribes suitable internal control procedures. It also maintains all the books of accounts and records showing the financial activities of the hospital. The department also undertakes the responsibility of preparing various budgets which are basic for hospital planning and cost control.

A Finance Manager or a Chief Accountant is the head of this department. He is assisted by a team of well-trained and qualified assistants. He is responsible not only for the efficiency of his department but also for the financial activities of the entire hospital. The Finance Manager occupies a key position in the hospital organisation.
2.2 MANAGEMENT IN HOSPITALS

Hospitals at present do not have any professional management. The basic managerial functions are not performed in hospitals. Hospital authorities do not realise the need and importance of application of management principles to solve the multifarious problems facing them. Because of the complex nature of the hospital organisation, there are serious gaps in the process of planning, co-ordination, decision-making and control. There are many practical references of failures in many areas of hospital activities due to the absence of proper management functions. The current hospital scenario lacks in most of the hospitals adequate inputs of professional managerial skills in managing hospitals of different types. It is only the professional managers who can make hospitals more efficient and effective and they will be able to contain cost and provide better satisfaction to patients, assure quality services and that too within the present allocated resources.

The need is felt for professionalisation in hospital management due to certain major issues in hospitals under study. These issues are plaguing the hospitals because of non-professional approach to the management of hospitals. The issues which require immediate attention of professional managers in hospitals are stated below:

1. The doctor is highly professionalised and is a specialist in a particular area of medicine. But in many hospitals, this high level of professionalisation has led to fragmentisation of services. As a result, the patient is not in a position to get the fruit of technology, because there is no coordination of activities. This trend has also led to different units and departments working quite autonomously, ultimately failing to contribute for the overall objectives of the hospital.
2. With the increasing number of specialities and new technology, the supportive services needed for medical professionals have increased tremendously over a period of time. But this development has led to the introduction of bureaucracy into these services which results in a lot of delays and bottlenecks to provide prompt and effective support to medical professionals. Often there is friction between medical professionals and persons in charge of supportive services.

3. Most of the hospitals lack proper short term and long term planning perspective. Many hospitals lack not only programme planning but also financial planning leading to chaotic conditions in implementing its different programmes. The persons at the helm of the affairs of hospital do not bother about making a good organisational diagnosis to identify its strengths and weaknesses as well as its future needs.

4. Often modern technology is introduced in hospitals for the sake of modernisation without serving any purpose to clientele group. The amount of resources spent on modern technology is often not reflected on the patient satisfaction. It has often led to escalation in the cost of medical care without satisfying the patient.

5. The departmental heads in hospitals have no commitment to hospital goals and programmes. Personal and professional interests predominate over hospital goals and no effort is made to develop strategies to implement programmes. Often these departments function like satellite organisations within the total hospital organisation.

6. Further, morale of the lower level employees are low in hospitals. There is no conscious effort to motivate the subordinates in hospital. The
chief executive in hospitals do not have any knowledge about the labour relations and about how to deal with strikes and grievances.

7. There is hardly any performance appraisal system existing in hospitals. As a result there is not much accountability and there is no means to find out whether hospitals are achieving their goals. Lack of performance appraisal also leads to lack of identification of the strengths and weaknesses of subordinates. Hence there is hardly any effort in hospitals to undertake any staff development programmes.

**STRIKING FEATURES OF HOSPITAL MANAGEMENT**

An in-depth analysis of the existing management practices in hospitals reveals the following striking features:

1. **DISPERSAL OF PLANNING AND CONTROL**

   The planning and control decisions are dispersed in hospitals due to diversity of power base and authority structure. The three groups responsible for planning and control decisions are the owners, the medical staff and the hospital administrator. The owners of the hospital have the legal authority to decide on broad financial matters. The medical staff has the technical knowledge and authority concerning patient treatment. The hospital administrator and his staff are in charge of the functioning of the hospital and are engaged in organisational planning and control.

2. **PLANNING**

   The planning function in hospitals is carried out in many ways. The medical staff has a vital role in planning related to patient care and
treatment. The hospital administrator is engaged in broader strategic planning. He is concerned with the financing and procurement of facilities and planning for their effective utilisation. The owners prepare plans for the growth and development of hospitals.

3. CONTROL

Various segments in hospitals establish their own 'hospital procedures'. Such procedures range all the way from the surgical procedures by the medical staff to business methods established by the hospital administrator. These hospital procedures provide the basis for control over relatively programmed activities. However, many of the functions in the hospital are non-routine and it becomes difficult to establish well-defined controls for such activities.

4. CO-ORDINATION

A high degree of differentiation and specialisation creates critical problems of co-ordination in hospitals. It is very difficult to achieve co-ordination in hospitals by means of organisational hierarchy. Hospitals do, however, make extensive use of co-ordination by administrative rules and procedures. These are most effective for the programmable, routine events. But the diverse problems associated with the care and treatment of patients do not allow hospitals to rely exclusively on administrative procedures for co-ordination. The unusual and non-routine events are dealt with by voluntary co-ordination and willingness of various participants.
5. **ORGANISATION STRUCTURE**

The organisation structure of large general hospitals differ substantially from the design of other large-scale organisations. Hospitals establish a unique relationship between the formal authority of position and the authority of knowledge. The former is represented by the administrative hierarchy and the latter by the medical practitioners and other professionals. This creates a somewhat diffused and unusual formal structure. Furthermore, there are variations in structure among hospitals because of differences in their environments and technologies.

6. **LINE OF AUTHORITY**

There is no one line of authority regarding the specific authority structure in hospitals. Authority in hospitals is shared, not equally, by the owners, the doctors and the administrator. They are considered as the three centres of power in the organisation. To some extent, the head of the nursing staff also shares the authority. These groups have their own legitimate reasons for the basis of exercising the authority. However, they are not clearly delineated and separate. Authority is dispersed and shared rather than adhering to the scalar hierarchy.

7. **MATRIX ORGANISATION**

A matrix organisation aptly depicts the organisational structure and authority in hospitals. In a matrix organisation there exists both hierarchical (vertical) co-ordination through departmentalisation and the formal chain of command and simultaneously lateral (horizontal) co-ordination across departments (the patient care team). Each specialist doctor is the manager who integrates the activities of nurses,
athologist, Radiologist, Medical Records Officer and other professionals. This form of organisation overcomes some of the difficulties created by excessive specialisation of labour and departmentalisation within the hospital. Co-ordination and integration of different hospital activities can be achieved to a great and sufficient extent in this matrix structure.

SPECIAL ASPECTS OF HOSPITAL MANAGEMENT

The principles of management can be applied with suitable modifications in hospitals. In addition, there are specific areas of hospital management where certain special techniques of management should be practised. These special techniques are selected after taking into account the peculiar conditions prevailing in hospitals.

1. PARTICIPATIVE MANAGEMENT

Participative Management has an important place in the Hospital Management; Participative management ensures participation by the employees in the decision-making process of the hospital, so far as it affects their interest immediately or remotely in the democratic process. The medical staff, nursing staff, paramedical staff and administrative staff, etc. of the hospital, if participated in the decision making process, will get motivated and this, in turn, result in the smooth management of hospital activities.

2. SOCIAL SCIENCE

The application of social science ideas to Hospital Management and Administration is of great relevance and importance. Social science is concerned with the study of different aspects of people. The persons who
manage and administer the hospitals are required to have competence to
deal with a variety of groups of people, each having its own peculiarities. Such groups of people in the hospital setting are:

a) doctors, nurses, technicians and para-medical personnel of various types.

b) other management personnel dealing with such aspects as diet, laundry, supplies, accounts, housekeeping, maintenance, watch and ward, etc.

c) the patients, who get the services of the hospital, and

d) the community which comes into the picture in studying the many aspects of the groups as mentioned above, and in visualising a hospital as a community institution.

Study of these different categories of people involves the application of most important specialities of social science. Social science consultation in the field of hospital management includes:

a) diagnosing and suggesting solutions for certain special problems that may arise within the hospital, especially interpersonal relations within the hospital staff, and

b) Conducting special studies for widening the knowledge about some special social science areas particularly the measurement of 'felt needs' demands of patients and the hospital staff.

3. DISASTER MANAGEMENT

Disaster management is a multi-institutional approach and hospital is one of the institutions involved. It demands advance planning on the part of
the hospital management to tackle it during catastrophe. Disaster is a situation that creates too great a load for the normal system of a hospital to cope-up with. Disaster management implies that the casualty department of a hospital must function well if disaster is to be managed effectively. The specific problems of Disaster management are clinical problems and administrative problems. These problems enlarge the scope of the field of hospital management.

4. MANAGEMENT INFORMATION SYSTEM

The Management Information System in a hospital is a tool for quality care. It is a powerful method for aiding the hospital administrator in solving a variety of problems and making important decisions. A well-designed Information system forms the 'eyes and ears' of planners, administrators, etc. who are concerned with organisation, co-ordination, control and monitoring of services at the hospital. An effective Hospital Information System is a subsystem of the hospital management system.

5. MANAGEMENT ENGINEERING

The Industrial Engineering concepts when applied to hospitals becomes Management Engineering. It offers techniques that can be usefully employed in achieving professionalisation in hospital management. It enriches the professional hospital administrator with numerous techniques and tools with which he can manage the hospital system for best results.

6. HOSPITAL ENGINEERING

Hospital Engineering is an integrated form of Engineering as applicable to hospitals. It can be broadly divided into two categories, namely,
Building Services and Bio-medical engineering. Tackling of hospital engineering problems in a hospital is one of the important aspects as well as functions of hospital management. Hospital Engineering problems include operation and maintenance of Building services such as water, electricity, infection control, refrigeration and air-conditioning etc. and medical instrumentation problems. Planning and control of these services in hospital are greatly facilitated with the techniques and tools of Hospital Engineering.

7. **CONFLICT MANAGEMENT**

Conflicts are clashes of contrary wishes. Hospital is the most vulnerable organisation for conflict as compared to any other organisation because of more complex nature of hospital in many respects. Conflicts are inherent in any organisation system and more so in hospitals. Conflicts either facilitates the productivity, solvency, cohesiveness and adoptability of hospitals or they inhibit them. Conflict may infact be a source of equilibrium and stability in a hospital. In hospital large number of categories of people from super specialist professional to unskilled persons work in a close vicinity to each other under similar working conditions. Persons of great diversity in their socio-economic status, educational levels, trades and skills work together with a large variety of sophisticated instrument and equipment and with advance technology to serve the patients of wide varieties of ailments, temperaments, culture and socio-economic status. Therefore, it is very obvious that one come across various types of conflicts at different levels of hospital system. These conflicts cannot be eradicated completely, but certainly they can be controlled and minimised through administrative procedures. It becomes a necessary function of hospital
management to probe into the various types of conflicts persisting in the hospital situation, to ascertain the reasons in detail and to take the necessary steps to prevent and manage the conflicts most effectively.

8. MANAGEMENT BY OBJECTIVES

Since hospital management is not only difficult but also complex in comparison to any other industry, there is vast scope for the application of Management by Objectives in hospitals. Management by objectives is one of the most important principles of modern management techniques which has given astounding results primarily in other industries. Hospitals have two parallel functions namely medical and non-medical and the various people in both the spheres frequently come on a common platform to sort out each others’ matters bringing about absolute effectivity in the total management of the hospital. This common approach can be possible only by the introduction of Management by Objectives. Management by Objectives is, for the purpose of hospital management, a result-oriented, non-specialist management process for the effective operational utilization of organisational resources by integrating individuals with the organisation and the organisation with the environment. It is a top-down approach and essentially group oriented. Yet, there is a high degree of individual freedom. Management by Objectives, as a technique of hospital management, can be effectively applied in a hospital setting with concrete results. It is definitely a panacea for most of the ailments and headaches of hospital management.
2.3 ACCOUNTING IN HOSPITALS

Hospital Accounting may be defined as the accumulation, communication and interpretation of historical and projected economic data relating to the financial position and operating results of a hospital enterprise, for the purposes of decision-making by its management and other interested parties. It involves the process of recording and classifying the business transactions and financial events that occur in the economic life of the hospital. It also includes the reporting of recorded information to those who utilize it. Hospital Accounting is further extended to the effort to analyse and evaluate the reported information so that it may be better understood and more easily utilised by the decision-makers.

Generally, all hospitals follow accrual basis of accounting system. This system of accounting gives recognition to all revenues earned and to all expenses incurred in the time period, irrespective of the flow of cash between the hospital and other parties. The accrual basis of accounting provides the necessary qualities of completeness, accuracy and meaningfulness in accounting data.

ACCOUNTING CYCLE

Accounting cycle is a complete sequence of accounting procedures which are repeated in the same order during each accounting period. The cycle includes:

(a) Recording transactions in journals
(b) Classifying the recorded data by posting them from journals to the ledger accounts, and
(c) Closing the books and preparation of financial statements.
BOOKS OF ACCOUNTS

The Books of Accounts maintained by a hospital are of two types, namely Journals and Ledgers. A brief description of each of these is given below:

JOURNALS

Journals are books of original entry which record all transactions chronologically. Various kinds of journals are in use, depending upon the hospital size and nature of its services. Journals are written up with the help of source documents or posting media. These journals are of two types in hospitals - special journals and general journal.

Special Journals

The types of special journals which are used in hospitals usually depend upon the frequency with which like transactions of a particular class occur. The special journals commonly used in hospitals include the following:

1. In-patient Fees Journal
2. Out-patient Fees Journal
3. Patients' Concession Journal
4. Cash Receipts and Payments Journal
5. Petty Cash Journal
6. Medicines Purchase Journal
7. Purchase Journal
8. Salary Journal
A brief description of each of the above Journals is as follows:

1. **In-patient Fees Journal**

   Cash income from Inpatients in summary form are recorded in this Journal. This Journal is written with the help of posting media called charge slips. Charge slips show the type of service rendered to each patient together with the charges.

   The charge slips are posted to the Individual Patient’s Account in the In-patient Ledger as soon as they reach the Accounts Department. Then the charge slips are summarised, totalled and entered in the appropriate columns of the Inpatients Fees Journal. At the end of each month, the totals of the various columns are posted to the General Ledger.

2. **Out-patient Fees Journal**

   This Journal records the daily receipts from out-patients in summary form and by departments. Charge slips are directly posted in totals to this Journal.
<table>
<thead>
<tr>
<th>Date</th>
<th>Bill No.</th>
<th>Room</th>
<th>Nursing Care</th>
<th>Visiting Charge</th>
<th>Operation Room</th>
<th>Deliv. Room</th>
<th>X-ray</th>
<th>Laboratory</th>
<th>Pharmacy</th>
<th>Total</th>
<th>Advance paid</th>
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**TOTALS**

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### OUT-PATIENT FEES JOURNAL

<table>
<thead>
<tr>
<th>Date</th>
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<th>To</th>
<th>Medical Consultation</th>
<th>Treatment</th>
<th>X-ray</th>
<th>Laboratory</th>
<th>Pharmacy</th>
<th>Registration</th>
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<th>Others</th>
<th>Total</th>
<th>Concession</th>
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Hospital service charges are usually recorded in charge slips which are made out by the departments rendering services to patients. Operating charges, anaesthesia, pharmacy, laboratory, delivery, X-ray etc. are recorded in the respective charge slips by the departments. A different coloured charge slip may be used for each department, which is an aid in sorting and posting media. Such charge slips are collected in individual envelopes or folders and arranged by patient name in the Billing Section of the Accounts Department in the case of in-patients. In the case of out-patients, these are collected department-wise. Charge slips are usually made out in triplicate so that copies are available for the patient record, department rendering service and the Billing Section.

A typical form of Charge Slip which Combines Request, charge and Report is given below:
It is important that strict internal control system should be established in respect of various service charges. There should set up a daily income summary from the copies of charge slips. The sum of the charge slips for each department will add up to that day's income from special professional services. This summary should be tallied periodically with the patient fee journals and also with the registers of service departments like the operating room, delivery room, X-ray, laboratory where the number of operations, deliveries, X-ray examinations, and laboratory tests can be counter checked.
3. **Patient's Concession Journal**

Following are the circumstances when it becomes necessary to give concession or adjustment to a patient's bill:

(a) free service has been authorised for a poor patient.
(b) courtesy discounts are given to hospital staff and their dependents.
(c) professional discounts are given to doctors or nurses.
(d) a miscellaneous write-off is made of a disputed charge.

All concessions are recorded daily in the Patients' Concession Journal.

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**PATIENTS' CONCESSION JOURNAL**

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Date</th>
<th>Name and Address</th>
<th>Bill No.</th>
<th>Patient</th>
<th>Religion</th>
<th>Concession</th>
<th>Address</th>
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- In:Out;Min;Min:Chr:Full:Part;Local;Vill;In:Out;
- Pat:Pat;du:li:ent;iel:fan;iel:iel
All the information shown in the Journal is important in showing the charity nature of the hospital to government officials, staff members, as well as local citizens.

The accounting data for this journal are obtained from the Inpatient and Outpatient Fees Journals. The cash receipts in these Journals will equal patient fees less concessions given. At the end of each month, this Journal is totalled and the amounts debited to Free Care - Inpatient Account, and Free Care - Outpatient Account maintained in the Ledger.

The total number of patients receiving concessions is important, as well as the total rupee value of free care given. Comparison can then be made between the percentage of patients receiving free care (either full or part concession) and the percentage of patient income which is given free to patients. The calculations are as under:

% patients receiving free care = \( \frac{\text{No. of patients given concessions}}{\text{No. of patients treated}} \times 100 \)

% patient income given free = \( \frac{\text{Rupee total of concessions}}{\text{Rupee total of patient income}} \times 100 \)

4. **Cash Receipts and Payments Journal**

This is one of the most important Special Journals in hospitals, wherein all receipts and payments in cash and in cheque are recorded on a day-to-day basis. All cash transactions in other special journals are summarised and shown in this Journal so that the cash position of the hospital can be quickly seen at a glance.
## CASH RECEIPTS AND PAYMENTS JOURNAL

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<tr>
<th>Date</th>
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<th>Date</th>
<th>Voucher No.</th>
<th>Acct. No.</th>
<th>Payments</th>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Since cash assumes a very important role in hospital operations, the accounting of cash needs careful attention. It is a good practice to have pre-numbered receipts, to enter every receipt in the Journal, to bank the entire receipts, to make major payments by cheque and to make small payments through pre-authorised petty cash vouchers. It is also very necessary to check the physical balance of cash in hand and to reconcile both the cash balance and bank balance at frequent intervals of time.

5. **Petty Cash Journal**

Petty Cash payments constitute an important aspect of total cash payments in a hospital. The hospital should establish a policy of depositing the entire money collection into the bank at regular intervals keeping a small imprest petty cash amount to meet minor expenses, and making all other payments by cheque. It is necessary for the hospital to establish an imprest petty cash fund which should be kept separate from other cash funds of the hospital. When payments are made from this fund, petty cash slips are prepared. A form of Petty Cash Slip is given below:

---

**PETTY CASH SLIP**

<table>
<thead>
<tr>
<th>RECEIVED FROM</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. ............</td>
<td>Rs. ............</td>
</tr>
<tr>
<td>In full payment of</td>
<td></td>
</tr>
</tbody>
</table>

Signed

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Approved by</th>
<th>Date</th>
</tr>
</thead>
</table>
Petty Cash Slips show the amount of payments, the nature of payments and the accounts to which they should be charged. These slips serve as the basis for recording the reimbursement through the cash payment Journal.

A Petty Cash Journal is necessary to summarise the petty cash payments. It depends on the volume of petty cash transactions and also facilitates distribution of work. A proforma of Petty Cash Journal is given below.

F7

PETTY CASH JOURNAL

<table>
<thead>
<tr>
<th>Date</th>
<th>Payee</th>
<th>Voucher No.</th>
<th>Amount</th>
<th>Account 1</th>
<th>Account 2</th>
<th>Account 3</th>
<th>Account 4</th>
<th>Other Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Expense Distribution

Rs. | Rs.

6. Medicine Purchase Journal

Medicines or drugs constitute a major portion of the total inventory in a hospital. Regular use is made of very large quantity of drugs of varied
nature both for inpatients and outpatients. Hence a regular purchase system is essential for the drugs to be used in the hospital. Since the quantity and money involved in the purchase of drugs is very large, it is imperative to keep a separate Purchase Journal for drugs. The Medicine Purchase Journal serves as a basis to account for the investment of money made in drugs for a specified period. A form of the Journal is given below:

F8
MEDICINE PURCHASE JOURNAL

<table>
<thead>
<tr>
<th>Year Month Date</th>
<th>Invoice No.</th>
<th>Name of Supplier</th>
<th>L/F</th>
<th>Description of drugs</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rs.</td>
</tr>
</tbody>
</table>

7. **Purchase Journal**

Purchase of materials other than drugs are recorded in the Purchase Journal. Materials other than drugs include laboratory chemicals, X-ray films, linen and beddings, consumable stores, Hospital instruments and equipments and office materials. Since these items are regularly used, a
separate record of their purchase is specially called for. A columnar Purchase Journal is used in hospitals to record all the materials purchased during a specified period.

F9
COLUMNAR PURCHASE JOURNAL

<table>
<thead>
<tr>
<th>Date</th>
<th>Invoice</th>
<th>Items purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. Salary Journal

The purpose of the salary Journal or Register is to summarise information on hours worked, record data necessary to determine salary payable, and summarise payroll data for entry in the general ledger accounts. A summary of each payroll is made in the salary register for the purpose. A suitable form of the Register is given as under:
Depending upon the specific requirements of each hospital, it may have additional special journals, if necessary. Here it is only the typical and most commonly used special journals are explained and illustrated.
General Journal

The General Journal is used to record all those transactions which cannot be conveniently recorded in the special Journals. Some of the items which are recorded in this Journal are given below:

(a) Donated Supplies
(b) Patients' receivables uncollected
(c) Inventory Adjustment
(d) Depreciation adjustment
(e) Prepaid Expenses
(f) Deferred Income
(g) Contributed services of personnel
(h) Other Adjusting and closing entries

LEDGER

All the transactions recorded in the general and special Journals are classified and summarised in the Ledger. Ledger is the most important part of the Books of Account in a hospital. The amounts posted to the various accounts in the Ledger are regularly summarised, balanced and used in the preparation of financial statements. The numbers and type of accounts carried in the Ledger usually depend upon the financial data requirements of the hospital. Generally the following type of ledger account is used in a hospital:
Generally the Ledger is divided into General Ledger and Subsidiary Ledger. General Ledger consists of those accounts which are not included in Subsidiary Ledgers. Subsidiary Ledger consists of those accounts which represent transactions of a similar nature. When transactions of a like nature occur in very large numbers, it is preferable to set up a separate subsidiary Ledger to incorporate such kind of transactions. Following are the usual Subsidiary Ledgers kept in a hospital:

a) Patients' Accounts Receivable Ledger representing the individual Accounts of patients.

b) Accounts Payable - Suppliers Ledger consisting of individual Accounts of Suppliers.
c) Inventory Ledger consisting of individual Accounts of Medicines, Medical and Surgical Supplies, Linen and other hospital materials.

d) Plant and Equipment Ledger consisting of individual Accounts of Building, Hospital Equipments and other hospital assets.

When Subsidiary Ledgers are maintained, it becomes necessary to substitute a Summary Account called 'Control Account' in the General Ledger. The balance of Control Account reflects the net amount of the debit or credit balance of the individual Subsidiary Ledger. The advantages of self-balancing system can be ensured in this arrangement.

**TRIAL BALANCE**

At the end of each month and also at the close of the accounting period, a trial balance is extracted from the ledger account balances of General and Subsidiary Ledgers. Trial Balance facilitates the preparation of periodical Financial Statements.

**ADJUSTING AND CLOSING ENTRIES**

It becomes necessary in the hospital to make certain adjustments in respect of certain items like depreciation, provision for uncollectable accounts, inventory adjustments, expenses outstanding, etc. These adjustments are usually made at the end of the accounting period and, if necessary, at the end of each month. Adjustments are effected by passing adjusting entries in the General Journal and postings are made to the respective accounts in the General and Subsidiary Ledgers.

Closing entries are passed in the General Journal at the end of each accounting period to close all the Incomes and Expenses Accounts to the Income
and Expenditure Summary Account in the General Ledger. The debit or credit balance in the Income and Expenditure Summary Account is then transferred to Capital Fund.

FINANCIAL STATEMENTS

The Financial Statements represent the end-result of the accounting system. They provide the information required by those who interpret and act on them. The Financial Statements prepared in a hospital include the Income and Expenditure Account and Balance Sheet.

INCOME AND EXPENDITURE ACCOUNT

This Account or statement reports the results of the hospital operations for a stated period of time (month or financial year). The form of statement will depend upon management needs, degree of detail desired, and the type of comparison required. It is preferable to present the statement in comparison with the prior year and budget figures. This statement can be prepared in the conventional Account form. However, a more summarised and useful format of Income and Expenditure statement is given below. This form provides for comparison of the current month with the same month of the previous year and comparison of actual year-to-date figures with the yearly budget.
### INCOME AND EXPENDITURE STATEMENT

Month/Year ended................19...

<table>
<thead>
<tr>
<th>Year to Date</th>
<th>This month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td>Rs</td>
<td>Rs</td>
</tr>
</tbody>
</table>

**INCOME**

- Income from Routine Services
  - Inpatients
  - Outpatients etc.

  **Total Income**

  **Less** Reduction of patient Income
  **Net Operating Income**

  **Add** Non-operating Income
  Donation etc.

**TOTAL INCOME**

**EXPENDITURE**

- Administration
- Dietary
- House-keeping
- Laundry and Linen
- Operation of Plant
- Maintenance and Repairs
- Motor Service
- Professional Care of Patients:
  - Medical
  - Nursing
  - Operating Room

  **Other Expenses**

**TOTAL EXPENSES**

**GAIN OR (LOSS)**
BALANCE SHEET

A Balance Sheet is a position statement which reveals the financial position of a hospital as on a specified date. Although a Balance Sheet is prepared at the end of each accounting period, a monthly Balance Sheet with supporting schedules is one of the most important reports received by a hospital administration. The classification of Balance Sheet data usually conforms to general ledger classification of accounts maintained by the hospital. A Balance Sheet which reports the financial status of assets, liabilities and net worth as of a specific date compared with the same date a year ago helps in the evaluation of significant variations in the comparative figures.

The form of the Balance Sheet takes the standard format used in India except for limited companies which have to follow the form in Part I of Schedule VI of the Indian Companies Act, 1956. The standard format of the Balance Sheet other than the form prescribed by the Companies Act is given below:


### Balance Sheet

<table>
<thead>
<tr>
<th>Liabilities and Net Worth</th>
<th>Current Year</th>
<th>Previous Year</th>
<th>Assets</th>
<th>Current Year</th>
<th>Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building and Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction in progress</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Worth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain/Loss for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospital Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds - Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Worth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Supporting Schedules

Supporting schedules attached to the Financial Statements provide necessary and useful information for analysis. They supply management with the necessary tool for analysis and interpretation of financial position and operating results. The usual and important supporting schedules are given below:
1. **INCOME AND EXPENSE SUMMARY**

It is a summary statement of operations with regard to gross income and expense amounts. It frequently contains data with regard to number of patient-days during the reporting period as well as other hospital statistics which indicate patient load. It is prepared monthly to indicate the trend in various hospital operations.
**HOSPITAL NAME**  
**INCOME AND EXPENSE SUMMARY**  
**MONTH: .................. 19...**

<table>
<thead>
<tr>
<th>Year to date</th>
<th>This Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td>Rs</td>
<td>Rs</td>
</tr>
</tbody>
</table>

**Income from Routine Service**

Less: Reduction of Patient Income

Net Operating Income

Add: Non-Operating Income

**TOTAL INCOME**

Administration

Dietary

Household and Property

Professional care of patients:
- Medical
- Nursing
- Operating Room
- Delivery Room
- Anaesthesiology
- OPD
- X-ray
- Laboratory
- Pharmacy
- Other Expenses

**TOTAL EXPENSES**

**GAIN OR (LOSS)**

<table>
<thead>
<tr>
<th>Year to date</th>
<th>This Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td>Rs</td>
<td>Rs</td>
</tr>
</tbody>
</table>

**FINANCIAL INDICATORS**

Patient Fees (Net) per Patient Day

Other Income

Total Income

Total Expenses

Gain or Loss

<table>
<thead>
<tr>
<th>STATISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient</td>
</tr>
<tr>
<td>- Admissions</td>
</tr>
<tr>
<td>- Patient Days</td>
</tr>
<tr>
<td>- Average Daily Census</td>
</tr>
<tr>
<td>Outpatient</td>
</tr>
<tr>
<td>- New Patients</td>
</tr>
<tr>
<td>- Old Patients</td>
</tr>
<tr>
<td>- Total Visits</td>
</tr>
</tbody>
</table>
2. OPERATING INCOME AND EXPENSE DETAILS

These statements help the management to have effective financial control. The Hospital Administrator, the Medical Superintendent and the Hospital Managers have great utility of these statements for management purposes. The Proforma of the statements are given below:
<table>
<thead>
<tr>
<th>OPERATING INCOME</th>
<th>This month</th>
<th>Monthly total</th>
<th>Year to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Medical Care</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Food</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Dispensary/Emergency</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Operating Room</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Delivery Room</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Anaesthesia</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>X-ray</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Laboratory</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Medical/Surgical</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Dentistry</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>Gross Operating Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of Patient Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free Care Inpatients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free Care Outpatients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Other Reductions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Operating Income</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Grants
- Sponsors
  - Contributed Services
  - Government

Donations
- Local
  - Foreign
  - Value Free Supplies

Nurses Training School
Other Income

TOTAL INCOME
<table>
<thead>
<tr>
<th>Month of ....................19...</th>
<th>This month This Year</th>
<th>Previous Year Rs</th>
<th>Year to date This Year</th>
<th>Previous Year Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dietary</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Raw Food</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House-keeping</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laundry &amp; Linen</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Linen &amp; Bedding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation Plant</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance and Repairs</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Service</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Service</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nursing Service</td>
<td>Salaries</td>
<td>Rs</td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>Supplies and Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Month of .................19...

<table>
<thead>
<tr>
<th></th>
<th>This month</th>
<th>Year to date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This Year:</td>
<td>Previous Year</td>
</tr>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td></td>
<td>This Year:</td>
<td>Previous Year</td>
</tr>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
</tbody>
</table>

- **Operating Room** - Total
- **Delivery Room** - Total
- **Anaesthesia** - Total
- **Outpatient Dept** - Total
- **X-ray** - Salaries
  - Supplies and Expenses
- **Laboratory** - Salaries
  - Supplies and Expenses
- **Pharmacy** - Salaries
  - Supplies and Expenses
- **Other Expenses**

### TOTAL EXPENSE

---

3. **SUPPLEMENTAL SCHEDULE OF CHANGES IN ACCOUNTS**

A schedule of changes in the items of Working Capital and also in the Capital Expenditure is a useful guide in determining the overall financial position of a hospital. A summary picture of the changes in the important accounts shows at a glance the liquidity and solvency position of hospital.
SUPPLEMENTAL SCHEDULE OF CHANGES IN ACCOUNTS

For the month of ..............

| Additional Accounts Receivables this month | ...................... |
| Total Accounts Receivable on Books          | ...................... |
| Additional Accounts Payable this month      | ...................... |
| Total Accounts Payable on Books             | ...................... |
| Invested in inventories this month (Stores Inventory only) | ...................... |

CAPITAL EXPENDITURE

<table>
<thead>
<tr>
<th>Department</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Items</td>
<td>Quantity</td>
</tr>
</tbody>
</table>

CASH POSITION

Cash Balance Beginning of this month
Cash Receipts for the month
Cash Disbursements
Cash Balance as on .................. 19...
(Include all Cash in Hand and in Bank except Designated Funds)
2.4 NECESSITY AND RELEVANCE OF COST ACCOUNTANCY IN HOSPITALS

NECESSITY OF COST ACCOUNTANCY IN HOSPITALS

The hospital today is a very complex institution performing diverse functions and having extremely heterogenous staff working for the patient care. In the last fifty years, there has been a profound change in the Medical Science, accompanied with parallel changes in patients attitudes. The patient today wants more for his money. The workers of the hospital have become as demanding as in other industries and are now being organised for strong bargain. Added to all these, are rising costs of hospital facilities and the pressure on administrators to contain costs.

The state of affairs of hospitals at present justify the urgent need of a system of Cost Accountancy in hospitals. The necessity of the cost system in hospitals emnates from the following:

1. The huge waste and alarming inefficiency in hospital activities is colossal due to lack of managerial skills in managing the different affairs. The persons charged with the efficient running of the hospitals are not trained in the managerial techniques and tools necessary for getting the best out of the resources available.

2. Absence of cost consciousness among hospital authorities and staff is another grave problem. They do know little about the economics of health services and know little about the costs of equipment and supplies they use. Doctors tend to prescribe costly drugs. Improper bed utilisation, unnecessary investigations, long hospital stay, heavy drug consumption and
ineffective utilisation of hospital resources are the important outcomes of the absence of cost consciousness in hospitals.

3. It is a fact that there is no clear conceptualisation of hospital output. Quality of care, as a concept, is vague and not easily definable in quantifiable terms. Nevertheless, hospitals must attempt to maximise quality of care of patients and minimize costs. In ensuring health for all by 2000 A.D. hospitals must lay emphasis on making available care of an acceptable standard at the least feasible cost. Quality assurance itself necessitates a cost-benefit exercise to define strategies for optimum utilisation of resources, focus on cost-effective methods, and introduction of systematic on-going quality control programmes to continuously monitor and improve the nature of care rendered and the overall productivity of the hospital.

4. The current trend in rising cost of medical care is pushing it to a level beyond the reach of the majority which is incompatible not only with demand on spendable income but also with social policies on availability of and access to hospital services. It is an accepted fact that improved health and social progress is directly dependent on accessibility of health care. Modern Society decrees that access to health care is a human right, regardless of persons' ability to pay. Medical care now moves from 'blessed benevolence' through that of 'private luxury' to one of civic right. This is a big challenge to today's hospital administrators and points to the need to deal with the variable and unbudgetable nature of medical care costs in hospitals.

5. Nothing has yet been done to achieve cost effectiveness in hospital project planning. Cost effectiveness is a management technique for
decision making pertaining to planning and allocation of resources commensurate with the objective of a hospital project. In hospital project planning, the three important cost factors involved are land, building and plant and equipment. At the planning and design stage itself, these factors merit very important consideration. Unless the cost aspects of these factors are properly analysed and interpreted before taking a final decision, these will have far reaching consequences on the future cost structure and the overall productivity and profitability of hospital.

6. Materials happen to be the major input in any organisation. In a competitive market it becomes essential to handle this input in a very effective manner to maximise profit. However, there exists an unsatisfactory system of Drugs and Medical Supplies in hospitals. The efficiency of hospital services depends not only on the competence of medical personnel but also on the availability of drugs in right quantity and of right quality. To ensure best possible patient care in a hospital, Hospital Engineering services must be maintained in an up-to-date and orderly state. Such a state will not be accomplished without effective Materials Management as ready availability of materials is the blood line of any engineering activity. It should be ensured that all the materials and supplies required in a hospital are properly managed, controlled and utilised to yield maximum return on the investment.

7. Unfortunately, the existing hospital system does not attach much importance to proper utilisation of available manpower resources. Salary expenditure is the single largest expenditure in hospital constituting a high percentage of the total operating cost. The quality of medical care is largely dependent on professional skill, team effort, working climate,
motivation and dedication to professional work. But there is no proper personnel function in many large hospitals. There are no scientific systems of recruitment, training, placement, job evaluation, merit rating, remuneration, promotion, incentives and bonus for the employees of hospital. This has created strained relations between the management and the different categories of employees in the hospital. It has also an adverse effect on the quality of medical care and hospital costs. Detailed manpower planning, proper work scheduling, efficient supervision, provision of the best method of remuneration and incentive and bonus schemes etc. can cut down 'manpower costs' in hospitals substantially. The utilisation of manpower is necessarily a cost aspect which should be interpreted in terms of effective and efficient achievement of hospital objectives.

8. Overhead expenses in hospitals are ever increasing day by day without any corresponding increase in the volume and quality of services rendered. Although a high percentage of total overhead expenses is in the nature of fixed expenses, no sincere efforts have been made to contain and reduce this important element of cost. This has resulted in increased overhead cost per patient. Only a cost control system can contain the overhead cost within the desired limit. Only then the objective of better patient care is achieved with minimal cost.

9. Hospital is a complex organisation with several service departments each independently functioning but much inter-dependent to provide total medical care to the patient. There is thus the growing need for co-ordination, co-operation and team approach for the desired result. Further, with the growing awareness towards hospital care facilities,
hospitals are always faced with growing demand on services and scarcity of funds. The hospitals have to manage with the available funds and aim at optimum utilization of funds. For these reasons, a system of budgeting is highly appreciable in the hospital set-up. The present style of achieving these needs is through the annual budget prepared on most conservative lines. The excessive emphasis is on accountability and financial control and in the process the hospitals are losing their dynamism. The drive, the initiative and imagination required for increasing productivity and thereby reducing the cost of service is missing. The easiest method adopted to balance the proposed expenditure is to raise prices of services. The present system of preparing budgets should be radically changed to effective device of planning, co-ordination and control. It becomes necessary for the hospitals to plan and budget their limited resources in a more "business-like" manner.

10. There is no denying the fact that in our country, hospital statistics are not properly maintained. The available statistics lack in uniformity, quantity and quality. Hardly any set up exists in a hospital which can exclusively deal with the collection, classification, tabulation and presentation of hospital statistics especially hospital service statistics and Patient-group statistics. In the absence of such an arrangement, it will be very difficult to programme, implement, monitor and evaluate hospital care. Communication gap will also exist between the providers and consumers of health care. The outcome of all these practices lead to inefficient management and lower productivity. Medical statistics are very necessary for analysing the past activities and for forecasting the future level of performance. Efficient performance of any administrator is based on timely and accurate information. In the present
day hospitals vast amount of information is generated. The information has to flow in all directions for decision making and subsequent actions. An efficient information system in hospitals will improve the efficiency in terms of quality care and better utilisation of limited resources. A Scientific Reporting System is thus very vital to the success of a hospital.

These are but a few symptoms of the cancerous growth of hospitals today. Only a sound Cost Accountancy System can bring to light the symptoms of the fatal diseases that eat into the vitals of hospitals. Cost Accountancy can prescribe effective, preventive and remedial treatments for eradicating the weaknesses and diseases which hinder the efficient functioning of hospitals. The application of the techniques and principles of Cost Accountancy and Cost Control in hospitals can go a long way in utilising the hospital resources towards the efficient and effective achievement of the objective of better patient care. Once the costs of hospital activities are controlled within the desired limits, the management can provide one of the most vital and essential services at a price within the common man’s reach.

RELEVANCE OF COST ACCOUNTANCY IN HOSPITALS

Cost Accountancy has a prominent role to play in the present day private hospitals since it is the only tool available for the management to set things right and to put the wheels of hospitals in a smooth running condition. Relevance of Cost Accountancy and Cost Control in a hospital becomes more specific in the following context:
1. **Setting Fees**

It is only through an efficient cost system that a hospital can set up a proper fee structure to assure complete recovery of the cost of operating the hospital. Proper setting of fees is possible only with a firm knowledge of various cost factors. Minimum charges that can be levied from patients for various facilities provided in the hospital can be decided only by having a proper cost system. In too many hospitals at present, fees are charged without accurate knowledge of the actual cost of providing a particular service. Charges for services are based on arbitrary decisions based on the size of the annual deficit. Justification of an increase in fees is thus based on an overall loss or profit figure rather than the actual cost, regardless of whether the fee adjustments will actually be sufficient to cover the budget in the next year. It is very important to note that eventually all costs must be distributed to those departments which charge fees so that the total cost of operating the hospital can be recovered in full.

2. **Ascertainment of costs**

Cost Accountancy lays down the principles to be followed in evolving different methods by which costs are collected, analysed and related to the services rendered. The unit cost of each type of service in a hospital and the sub-division of such cost into its components are possible to suit the various needs of management. Accurate and timely cost information form the very basis of Cost Accountancy.
3. **Control of Cost**

The very existence of a hospital largely depends on its ability to levy minimum charges for its services. This can be possible only if costs are controlled within the expected limits. A Cost Control System reveals to the management inefficiencies, wastages and unprofitable activities existing in a hospital. Each item of cost incurred in a hospital is subject to strict control limits under the systems of Budgetary Control and Standard Costing. These techniques of Cost Control enable the management to concentrate on those areas where remedial actions are urgently needed.

4. **Assessing the feasibility of new programmes or departments**

In contemplating a new activity in a hospital one must assess the viability of the proposal along with its need. One of the most important tools of such an evaluation is a budget based not only on direct costs, but also on the hidden indirect costs. It is only when one has all the information as to the complete cost and the revenue per unit of service, and the number of units of service expected to be rendered, that the management can pass on to considering other factors of the new proposal. Thus appraisal of past data and projected level of performance help predict profitability and financial viability.

5. **Evaluating Efficiency**

Efficiency can be evaluated by examining costs in relation to output. Unit costs have to be compared with figures of previous years, of other hospitals and also with standards previously laid down. All these
measures indicate the level of efficiency of each activity in the hospital.

6. **Determining Break-even Point**

Determination of Break-even Point helps the management to ascertain at what level of activity revenue equals expenditure and when profits are possible. It assists the management in planning and decision-making. It also reveals the various effects of changes in the volume of activity on the profitability of a hospital.

7. **A basis for business Policy**

Cost Accountancy also provides the management with bases for formulating the business policies of the hospital. Forward planning and decision making are the prime functions of every management. Cost Accountancy has important techniques to facilitate tactical decisions and profit planning. Marginal Costing principles provide ample scope to deal with many practical problems faced by the hospital management particularly in the areas of decision-making and planning.

8. **Detecting trends**

Cost Accountancy can detect unhealthy trends in each department of the hospital in relation to the amount of work being done in the department. Analysis of cost data together with the volume of activity in each department can reveal undesirable trends.

9. **Cost Comparison**

Cost Accountancy enables management to make cost comparisons of various services rendered in a hospital. The application of Uniform Costing
principles renders possible inter-hospital comparisons without affecting the competitive strength of each hospital. With cost finding, hospitals can compare costs, not only by units of service, but also by each component of the unit of service.

10. **Helps reveal idle capacity**

Under-utilization of productive resources can be brought to light. Also management is enabled to ascertain the cost of idle capacity. Although it is true that idle capacity must exist in hospitals, the abnormal cost of idle capacity points to the measures to be taken by the management to overcome the undesirable practice.

11. **Cost Reduction Programme**

A well thought out formulation and implementation of a cost reduction programme in hospitals can lead to a highly favourable response from the community which they serve. The management can also boast of rendering a very valuable service to the society at the minimum cost without impairing the quality of service. An ultimate outcome of this exercise is the overall increase in the competitive strength of the hospitals.