



جامعة المستقبل
AL MUSTAQBAL UNIVERSITY

كلية العلوم قسم الانظمة الطبية الذكية

Lecture: (2)

Healthcare Systems Administration II

Subject: Introduction to Healthcare Finance

Level: Fourth

Lecturer: MS.C Ali Haider Alazam

Income Statement in Healthcare Finance

The **income statement** (also called the **profit and loss statement**) provides a financial **summary** of a healthcare organization's **revenues, expenses, and profitability** over a specific period (monthly, quarterly, or annually).

Components of the Income Statement

1. Revenue (Income) – Money earned by the organization

A. Patient Service Revenue – The primary income from patient care services, including:

- Fees for medical consultations, surgeries, lab tests, and imaging (e.g., MRI, X-rays).
- Payments from insurance companies, government programs (Medicare/Medicaid), or self-paying patients.

B. Other Operating Revenue – Additional income related to healthcare operations, such as:

- **Cafeteria Sales** – Revenue from hospital cafeterias or food services.
- **Parking Fees** – Charges for hospital parking facilities.
- **Gift Shop Sales** – Income from in-hospital stores selling medical supplies, gifts, and essentials.

C. Non-Operating Revenue – Income not directly related to healthcare services, including:

- **Investments** – Profits from stocks, bonds, and financial assets.
- **Donations & Grants** – Contributions from donors, charities, or government funding.
- **Rental Income** – Earnings from leasing hospital-owned properties.

2. Expenses (Costs) – Money spent to operate the healthcare facility

A. Salaries and Benefits – Compensation for doctors, nurses, administrative staff, and other healthcare professionals.

B. Medical Supplies – Costs of consumable items used in patient care, such as surgical instruments, gloves, syringes, and medications.

C. Depreciation – The gradual reduction in the value of assets (e.g., buildings, medical equipment) over time.

D. Interest – Costs associated with **borrowed funds** such as loans and bonds.

E. Other Operating Expenses – Additional costs required for daily operations, including:


- **Utilities** – Electricity, water, heating, and internet services.
- **Maintenance** – Repairs and servicing of medical equipment, hospital facilities, and ambulances.
-

Key Insight: Net Income vs. Net Loss

Net Income = Total Revenue – Total Expenses


- **Net Income (Profit)** → If revenues exceed expenses, the hospital makes a profit.
- **Net Loss** → If expenses are higher than revenue, the organization operates at a loss.

2 Income Statement (Profit & Loss for 2024)

 Shows financial performance over a period (one year)

Revenue	Amount (\$M)
Patient Service Revenue	\$180M
Other Operating Revenue	\$10M
Non-Operating Revenue	\$5M
Total Revenue	\$195M
Expenses	Amount (\$M)
Salaries & Benefits	\$90M
Medical Supplies	\$30M
Depreciation	\$15M
Interest on Loans	\$5M
Other Operating Expenses	\$20M
Total Expenses	\$160M

| Profit (Net Income) | \$35M |

 XYZ Hospital made a \$35M profit in 2024.

Why the Income Statement Matters in Healthcare

- **Evaluates Financial Performance** – Helps determine if the hospital is profitable or facing financial risks.
- **Guides Budgeting & Decision-Making** – Enables hospitals to allocate resources efficiently.
- **Attracts Investors & Donors** – Positive financial performance encourages funding and investments.

Cash Flow Statement in Healthcare Finance

The cash flow statement tracks the actual movement of cash into and out of a healthcare organization. It helps clarify how much cash is available at any given time since profit does not always mean available cash.

Sections of the Cash Flow Statement

1. Operating Activities (Cash from Core Healthcare Services)

- **Cash Inflows** – Money received from:
 - Patient care services (insurance payments, government reimbursements, self-pay).
 - Other hospital operations (cafeteria sales, parking fees).
- **Cash Outflows** – Payments for:
 - Salaries and benefits for doctors, nurses, and staff.
 - Medical supplies and utilities (e.g., electricity, water, internet).
 - Administrative and facility maintenance costs.

Key Insight: This section measures how well the hospital generates cash from **day- to-day** operations.

2. Investing Activities (Cash Used for Long-Term Growth)

- **Cash Outflows:**
 - Purchasing **new medical equipment** (e.g., MRI machines, ventilators).
 - Expanding hospital facilities (e.g., building new wings, renovating operating rooms).
 - Buying **stocks, bonds, or other financial assets** as investments.
- **Cash Inflows:**

- Selling old hospital equipment or real estate.
- Profits from investment activities.


Key Insight: Shows how the organization is investing in **future growth and technology upgrades**.

3. Financing Activities (Cash from Loans and Debt Payments)


- **Cash Inflows:**
 - **Taking out loans or issuing bonds** to finance hospital expansion.
 - Donations or government grants for healthcare projects.
- **Cash Outflows:**
 - **Repayment of loans and interest.**
 - Paying dividends (for private healthcare firms).

Key Insight: Tracks how the organization raises and repays funds for operations and growth.

3 Cash Flow Statement (2024)

 Tracks actual movement of cash

Cash Flow Type	Amount (\$M)
Operating Activities (Cash from Services - Expenses Paid)	\$40M
Investing Activities (Equipment, Property Purchase)	-\$25M
Financing Activities (Loan Repayment & New Funding)	-\$10M
Net Cash Flow for 2024	\$5M

 Even though XYZ made a \$35M profit, it only increased cash by \$5M due to investments and debt payments.

Why the Cash Flow Statement is Important in Healthcare

- Ensures the hospital has **enough cash** for daily expenses.
- Helps in **budgeting and financial planning** for future expansions.
- Identifies **financial risks** like cash shortages or excessive debt.



Income Statement vs. Cash Flow Statement

Both the **Income Statement** and the **Cash Flow Statement** are critical financial reports in healthcare finance, but they serve different purposes.

Key Differences: Income Statement vs. Cash Flow Statement

Feature	Income Statement	Cash Flow Statement
Purpose	Measures profitability	Measures cash movement
Focus	Revenue & expenses	Cash inflows & outflows
Includes Non-Cash Items?	Yes (depreciation, unpaid bills)	No (only real cash)
Time Period	Specific period (month, year)	Specific period (month, year)
Shows Profit?	Yes (Net income or loss)	No (Only cash changes)
Shows Liquidity?	No	Yes (Available cash)

Which One is More Important?

Both are essential

- The **Income Statement** helps in evaluating **profitability**.
- The **Cash Flow Statement** helps in understanding **cash availability** for operations, investments, and debt repayment.

A Hospital Can Be Profitable but Still Have Cash Flow Problems

Example:

- XYZ Hospital has \$50M revenue and \$35M expenses, so it makes a \$15M net profit on the Income Statement.
- However, the hospital invests \$20M in a new treatment center, paid upfront in cash.
- The Cash Flow Statement shows a \$20M cash outflow in Investing Activities, reducing cash reserves.



Outcome:

- The hospital shows a profit (\$15M on the Income Statement).
- But its cash flow is negative due to the \$20M purchase, meaning it may struggle to pay short-term bills like salaries or supplier invoices.

Key Lesson:

Even if a hospital is making money on paper, poor cash flow can lead to liquidity problems, late payments, or even bankruptcy.

Hospital Can Have Good Cash Flow but Still Be Unprofitable

Example:

- ABC Hospital loses \$5M per year due to high operating costs (wages, supplies, rent).
- However, it sells an old building for \$10M, bringing in a large cash inflow in Investing Activities.
- The Cash Flow Statement looks strong because of the building sale.
- But the Income Statement still shows a net loss because operations are unprofitable.

Outcome:

- The hospital has good cash flow this year due to the one-time \$10M sale.
- But its core business is unprofitable, and next year, cash flow might drop again.

Key Lesson:

Good cash flow from one-time events (like selling assets or getting loans) does not fix a fundamentally unprofitable hospital.

Why Both the Income Statement and the Cash Flow Statement Important?

- Investors & managers need to analyze both statements to understand the hospital's financial health.
- A profitable but cash-poor hospital needs better cash management or financing.
- A cash-rich but unprofitable hospital must cut costs or increase revenue to survive long-term.

Statement of Changes in Equity: Tracking Net Worth Over Time



The Statement of Changes in Equity (also called the Statement of Retained Earnings) explains how a hospital's net worth (equity) changes over a financial period due to profits, losses, dividends, and other financial activities.

Why Statement of Changes in Equity is Important?

- Provides a clear picture of financial health
- Shows how profits are reinvested or distributed
- Helps investors & administrators make strategic decisions

◆ Components of the Statement of Changes in Equity

Component	Description	Effect on Equity
Beginning Equity	Net worth at the start of the period	-
Net Income	Profit earned from hospital operations	↑ Increases
Owner Contributions	New investments from owners or shareholders	↑ Increases
Dividends Paid	Profit distributed to shareholders	↓ Decreases
Other Comprehensive Income	Gains/losses from asset revaluation or foreign currency adjustments	↑ ↓ Can increase or decrease
Ending Equity	Net worth at the end of the period	-

◆ Example: XYZ Hospital's Statement of Changes in Equity (2024)

Component	Amount (\$M)
Beginning Equity	\$100M
Net Income (Profit)	+\$15M
Owner Contributions	+\$5M
Dividends Paid	-\$3M
Property Revaluation Gain	+\$2M
Ending Equity	\$119M