



Costing Framework and Cost Records In Healthcare Industry

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OVERVIEW

Guidance Notes Issued by Institute on Healthcare Industry

Cost Records Methodology Followed in Hospitals

Hospital Process Flow and Revenue Recognition

Absorption of Direct and Indirect Cost

Preparation of Cost Sheets and Consolidation at Group Level

Benefits of Costing in Hospital Industry

Challenges in Hospital Costing Framework

Cost Audit Compliance

Maintenance of Cost Records



Gazette-Cost-Rules - 2014



General Guidelines on Cost Records

Centrally guided Cost Audit Rules to Industry Specific

General guidance Notes published for Cost records Maintenance of Healthcare

Cost Compliance

Cost Records

GN on Cost Records in HealthCare

- **Common Health Care Services Includes**
- Hospitals (Government/Private/Charitable and NGO, Clinical Establishments, Pharmaceuticals, Diagnostics, Medical Equipments Management, Medical Insurance)
- **Clinical Practices Broadly Includes** - OT Surgeries, Cath Procedures, Wards, Critical Care Units, Diagnostic, Radiotherapy and Imaging, Emergency Procedures, Maternity, Pharmacy and consumables, Therapies, Pathology, Blood, Others
- **Activities at Hospitals broadly can be classified into two parts**
- A) Technical Services – Technical activities include Medical services called revenue centres where all the technical cost is directly attributable / traceable to the services/procedures e.g. Pathology, CT-MRI-Ultra Sound-X Ray, Wards etc. Also Medical Support activities which are semi revenue or service centres for Medical Services e.g. CSSD, Nursing, Biomedical etc.
- B) Non Technical Services – Shall consists those services which render services to main technical dept. and the hospitals as a whole e.g. Accounts and Finance, HR, IT, Admin, Housekeeping etc.
- **Healthcare Services Cost Pool & Cost Allocation** - In general it can be classified as same manner as above A) Medical Departments (Revenue Generating Dept.) B) Medical Support Service Departments (Support for Revenue generating Dept.) C) Non Medical Support Departments (do not generate any revenue directly but supports to the Medical and Medical Support Services)

GN on Cost Records in HealthCare

- **Basis of Allocation of Cost can be defined by Forming and classifying Cost centres in Medical Depts.& Medical Support Depts. and Non Medical Depts.**
- **Allocation of Costs - Cost needs to be directly attributed to Revenue generating cost centres and cost accumulated at medical support departments and Non Medical Department's cost to be allocated to Revenue Generating Cost Centres with basis of allocation.**
- **At last Cost Accumulated at Revenue generating cost centres need to be allocated to Patient level / services level with basis of allocation to form Costing P&L's**

Level 1 – Ledger Expenses allocation to all Cost Centres

- General Ledger Expenses (Except direct costs which can be attributed to IP/OP patients e.g. Pharmacy/ Consumables/Doctor's Fees) to be allocated to all cost centres. e.g. Depreciation

Level 2 – Medical Support and Non medical Cost centre's cost allocation to Revenue Generating Cost Centres

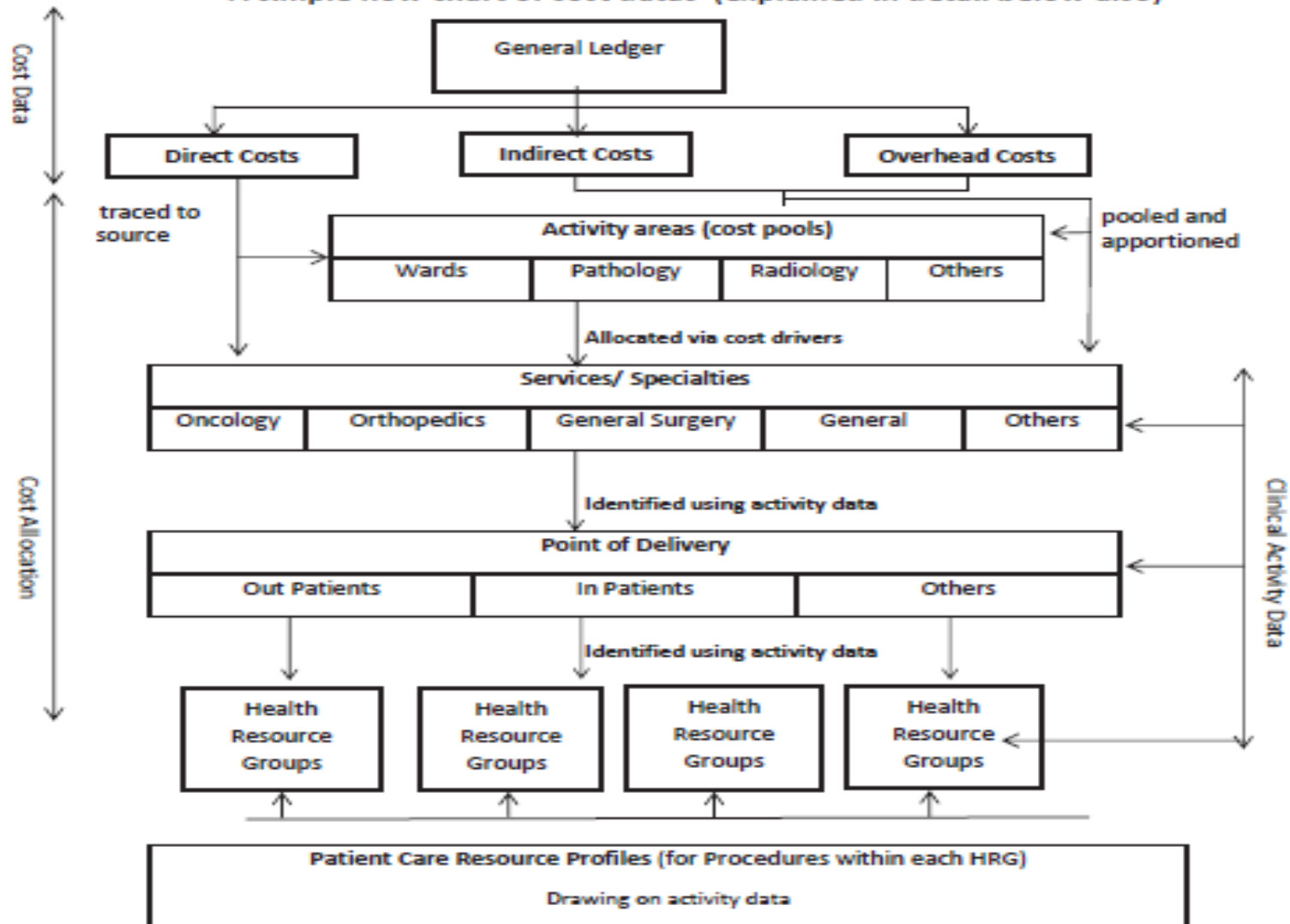
- Cost Accumulated to other than revenue generating cost centres to be allocated back to revenue generating cost centres with allocation basis. e.g Nursing Cost centre, CSSD, billing etc.

Level 3 – Revenue cost centres to IP/OP Patients and Services/PnL's

- Cost Accumulated in Revenue generating Cost Centres to be allocated to IP/OP Patient level / at service level / at Cost PnL level e.g. Pathology cost to be allocated to IP/OP patient

GN on Cost Records in HealthCare

A simple flow chart of cost data (explained in detail below also)



Cost Records and methodology followed in Hospitals

- **IN Patient and OUT Patient Revenue details gathered from hospital systems mainly**
 - In Patient Basic plus Bill Summary details and Service level break up details
 - Out Patient Basic plus Bill Summary details and Service level break up details
- **Direct Cost of Pharmacy and Consumables attributed to IP/OP Patient Level**
- **Doctor's Fees attributed to IP/OP Patient level**
- **Expenses other than Direct Cost, Fixed cost on non utilized capacity (on account of OT, Cath, Wards and ICU's) and reconciliation expenses (Donation, Foreign exchange P&L, discount related to prior period etc.) is allocated as per Cost allocation methodology (Level 1 to Level 3)**
- **Based on patient level and service level revenue and cost allocation, Costing P&L's and Cost sheets are formed** – Location IN Patient Cost Sheet (Surgery patients / Medical patients / Speciality and other analysis) , Location Out Patient Cost Sheet (Out patient Service level / Speciality Level and other analysis), Pharmacy and Consumables Cost Sheet, Investigations Cost Sheet (IP and OP Investigation service level Analysis), Wards and ICU Cost Sheet (In Patient Wards and ICU service level analysis) and Location Capacity Utilization (OT, Cath, Wards and ICU's)
- **Consolidation of Location cost sheets** – Allocation of Head office cost and Consolidation of all locations to form consolidated cost sheets at Group level

Hospital Process Flow and Revenue Recognition

In Patient Process Flow

Admission & Registration

Charges Discussion / Advance Collection

Diagnosis / Treatment / Stay

Final Bill payment and Discharge

Out Patient Process Flow

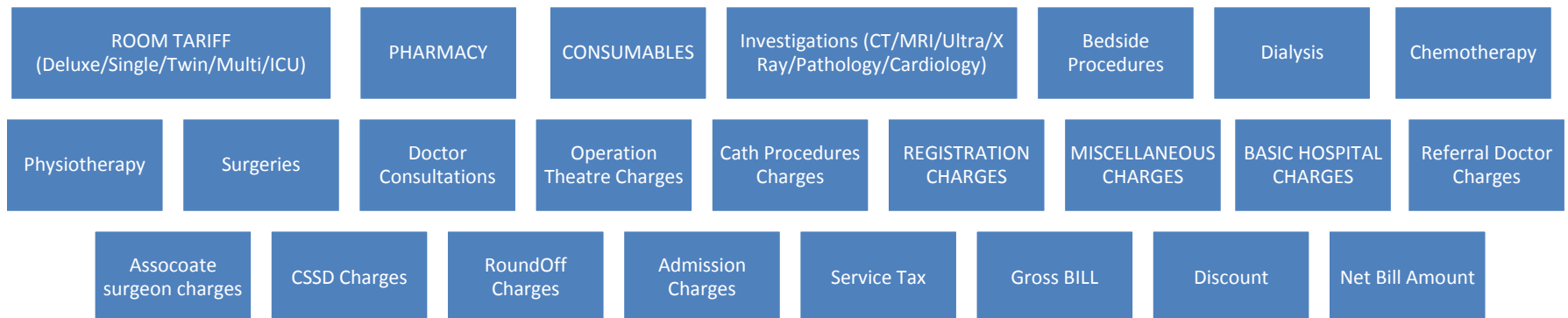
Walk in & Registration

Charges Discussion / Advance Collection

Diagnosis / Treatment

Final Bill payment and Walk out

Revenue Recognition when Final bill is generated – There are detail rate master for all medical services for IP & OP separately. Each service has charge code and it appears in detail of patient bill, Such revenue in bill details are recorded by division wise and department wise. This Departments and divisions are treated as Revenue Centres, Such are



Direct Cost

- Pharmacy Issued to Patients less Returns charged in bill (Revenue) and cost incurred is the direct Cost for Patients
- Consumables Issued to Patients less Returns charged in bill (Revenue) and cost incurred is the direct Cost for Patients
- Doctor Fees (Including Surgeon Fees, Associate Fees, Consulting Fees and Referral Fees) directly attributable to Patients
- Any other cost which is directly attributable to patients such as any equipments or machinery charged in bill (other than Consumables) cost related to such items
- Pharmacy and Consumables Issued to Outside Walk ins (Revenue and Cost both does not covered under Cost Audit as it is treated as trading activity)

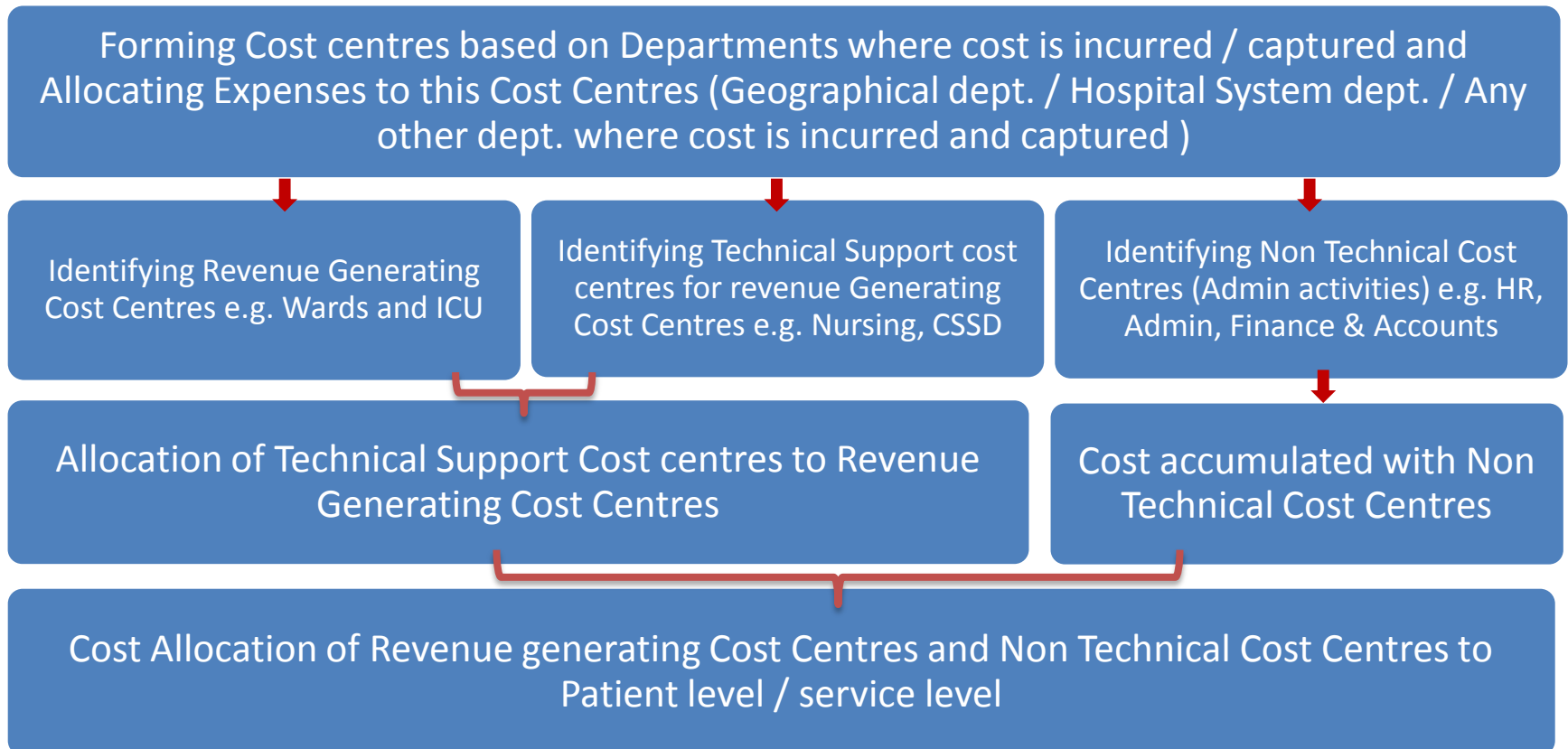
Pharmacy and Consumables specifically issued to Patients during treatment

Doctor Fees paid for patient specific to any diagnosis and procedure

Any other Equipment or items issued (not covered in consumables) during course of treatment directly attributable for patients

Indirect Cost

Expenses other than Direct Cost, Fixed cost on un-utilized capacity and reconciliation expenses (Donation, Foreign exchange P&L, Sell of Fixed Asset P&L etc.) **is treated as Indirect Cost and can be allocated as per below Cost allocation methodology (Level 1 to Level 3)**
e.g. Electricity, Depreciation, Salaries and Outsourced remunerations etc.



Probable Departments in Hospitals and Cost centre mapping

Medical Service Dept. – Revenue Generating Cost Centres

- Aesthetic Room
- Biochemistry & Serology
- Cardiology Room
- Cath Lab
- Operation Theatre
- Chemotherapy Room
- CT Scan
- MRI
- Ultra Sound
- X Ray
- Pathology
- Deluxe Room
- Single Room
- Twin Sharing
- Multi Beds
- ICU
- IP Pharmacy Room
- Neuro Lab
- OPD
- Pediatric Ward
- Physiotherapy
- Endoscopy

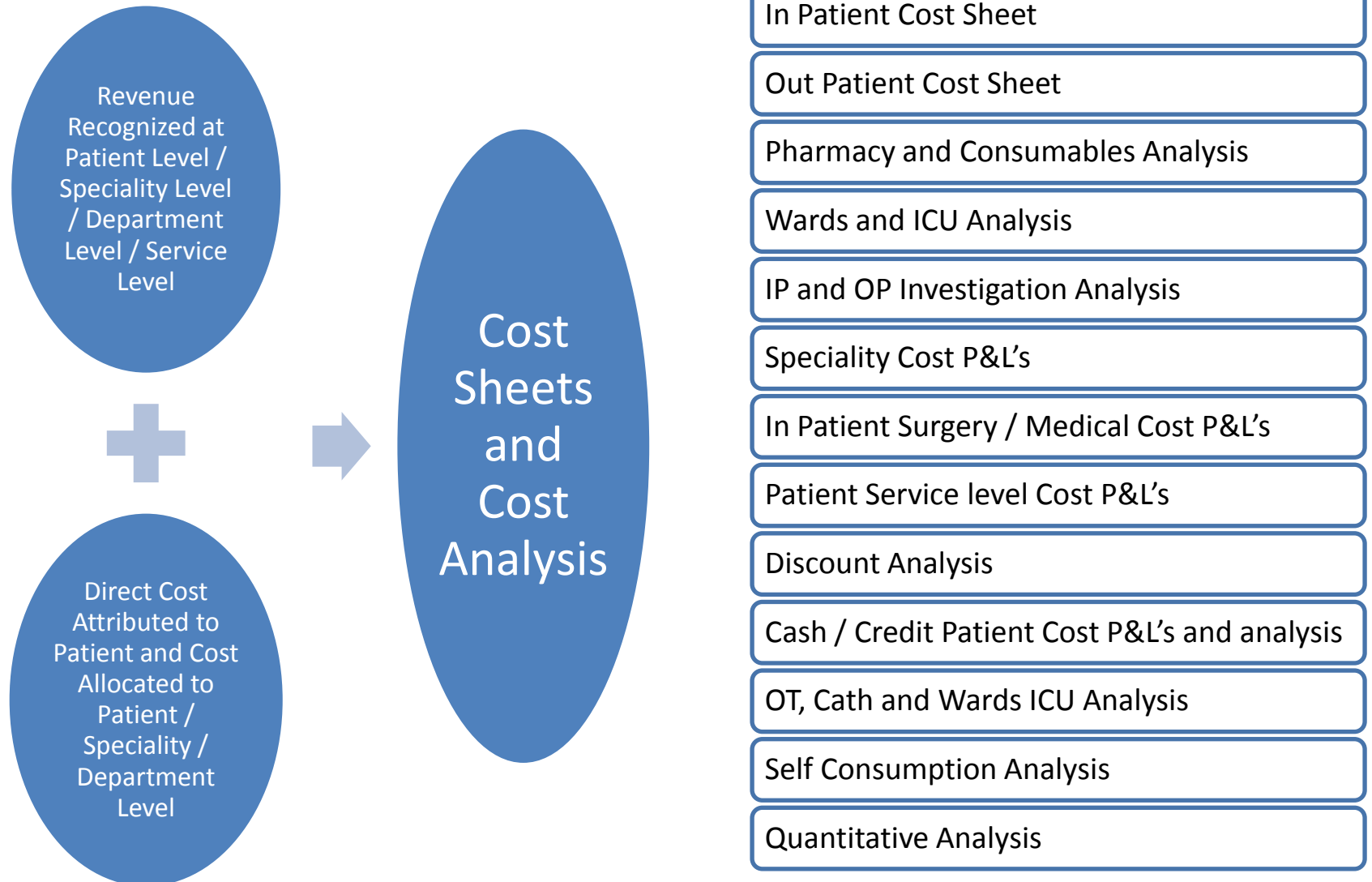
Medical Support Dept. – Support for Revenue Generating Cost Centres

- Nursing
- Casualty and Emergency
- CSSD
- Sample Collection Room
- Canteen and Pantry
- Biomedical
- Laundry and Linen
- Material Store Department
- Medical Record Room
- Quality Control Room
- Infection Control Room

Non Medical Depts. – Admin and Non Technical Cost Centres

- Centre Head Office
- Finance and Accounts
- IT Server Room
- Administration Office
- Marketing
- Human Resources
- Maintenance Room
- Generator and DG set Room
- Customer Care
- Billing

Preparation of Cost Sheet and Consolidation



Probable Cost Sheet format in Hospitals

		Cost Sheet For the Period _____		- Location _____	
Add/Less	Particular	In Patient	Out Patient	Investigation	Total
Total	Gross Revenue (Speciality/Procedure/Dept etc)	xxxxxx	xxxxxx	xxxxxx	xxxxxx
Less	Discount	xxx	xxx	xxx	xxx
Total	Net Revenue	xxxxxx	xxxxxx	xxxxxx	xxxxxx
A)	Material Cost				
Less	Pharmacy Cost	xxxx	xxxx	xxxx	xxxx
Less	Consumables Cost	xxxx	xxxx	xxxx	xxxx
B)	Industry Specific Cost				
Less	Consultancy Charges and Doctors Fees	xx	xx	xx	xx
Less	Operation Theatre Cost	xx	xx	xx	xx
Less	Cath Lab Cost	xx	xx	xx	xx
Less	Aesthetic Room Cost	xx	xx	xx	xx
Less	Cardiology Room Cost	xx	xx	xx	xx
Less	Chemotherapy Room Cost	xx	xx	xx	xx
Less	Dialysis Room Cost	xx	xx	xx	xx
Less	Endoscopy Room Cost	xx	xx	xx	xx
Less	Physiotherapy Room Cost	xx	xx	xx	xx
Less	Admin Cost	xx	xx	xx	xx
Less	Other Cost	xx	xx	xx	xx
C)	Selling & Distribution Cost				
Less	Marketing Cost	xx	xx	xx	xx
D)	Interest and Financing Cost				
Less	Interest Cost	xx	xx	xx	xx
A+B+C+D	Total Cost	xxxx	xxxx	xxxx	xxxx
	Location Profit	xxxx	xxxx	xxxx	xxxx

Benefits of Costing in Hospital Industry

- To calculate the cost of departments and specific services (Speciality, Surgery and Procedure, Investigations, Ward & ICU's and other defined services)
- Helps management in Pricing Decision/ Reviews / Competitive market pricings
- Review Service Mix and Set priorities for improvement efforts
- Understanding and evaluating the price changes impact through What if Analysis
- Inter Location Comparison for various common products and departments
- Help in controlling the cost on overall basis
- Help to built up the standard costing module in order to identify the variance with Actual
- Help in Management Expansion/Addition/abridgment/Reduction decisions

Challenges in Hospital Costing Framework

- Speciality categorization for patient is challenging, as system based specialization is manual inputs and may have errors while defining
- Patients may go through multiple surgeries and procedures from multiple specialities, hence defining one speciality needs assumptions
- Basic Hospital Charges / Package – Bundle of services sold as package is challenging while recognizing revenue, as package price charged to patient differs from actually services rendered (Over consumption or under consumption)
- Undischarged Patients – recognizing revenue and cost for Patients who are undischarged at the end period becomes challenging as patients are charged as services rendered but at the time of discharge and final bill posting packages are posted and discount is calculated
- Doctor Fees and consultancy charges paid not directly attributable to patients e.g. Full time anesthetists payout, Intesivists payout etc. need to consider as allocation cost
- Defining Human Resources and Outsourcing cost as per deployment is challenging, as employees provide services to different departments within specific period e.g. One Radiologist attends CT and MRI department as and when patient is arrived hence attributing cost to one department becomes challenging
- Allocating some medical support cost centres is also challenging and average needs to be considered e.g. CSSD, Canteen and Pantry, Laundry and Linen

THANK YOU !

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