



Financial management of laboratory

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The accounting in laboratory is important communication tool with any other departments. Its purposes are business management and provision of decision materials for medical costs. Considering the fiscal roles, the manager who makes good use of it can be recognized his ability.

The accounting consists of financial, administrative and tax accounting. Considering that laboratory medicine is an area of providing medical service, it was thought that administrative accounting was important in laboratory. Thus, checking association with financial accounting and analyzing cost-effectiveness are important in laboratory accounting. Financial accounting focus on balance sheet (BS), income state (IS) and statement of cash flow (SCF), and laboratory manager must be susceptible of IS. Administrative accounting, which generally known as tool of medical cost analysis in laboratory, focus on calculating cost, and tax accounting is associated with tax. The accounting is influenced by industrial characteristics. Because industries providing medical service have a concept of public interest, a principal agent responsible for payment is not service user, but a third party having function of inspection request. Also, they require specialty, and their profit rate is higher than in manufacturing community. But, because the structure of human resource in them is not flexible, the percentage of labor cost is high in cost structure. Comparing with manufacturing community, they have cost structure without intermediary goods or stock, and apply job costing based on each medical activities which is difficult to standardize. Finally, because a title of account is very complex and variable, specialists who knows about laboratory environment are needed.

Establishing strategies for cost-effective laboratory management begins with an assessment of the laboratory's external and internal fiscal environment. The laboratory manager should understand both the organization's and the laboratory's strategic plan in the external environment. Also in the internal environment, manager should assess the age and condition of equipment, staffing adequacy and balance, salary structure, and types of reimbursement received, and analyzed the volume and complexity of the laboratory's input. The major fiscal problems include managing enormous increases in workload, regulations and quality management requirements, and managing hidden and uncontrolled costs, and finding and installing adequate fiscal management system to capture the majority of data input and relieve the technical and administrative staff of the onerous, inefficient task of manual data entry. These make it difficult to manage financially.

Cost is the amount of money expressed in monetary value to obtain goods or services. Expired costs are processed at expense and unexpired cost is finalized as assets. The confusion between expense and asset can induce the difference in profit and loss. Cost calculation can be important as the size difference in the financial status table can occur. Generally, it is thought that the cost could be unexpired one for sales when the economic event such as sales is occurred. Unexpired cost includes direct reagent cost, labor cost and indirect cost and would be recorded as an item of sales cost in IS. Cost can be divided into variable and fixed one. Each cost could be influenced by test volume or not. But, in case of fixed cost, if beyond limit, it can be increased and expressed as step cost. Variable cost



can mostly influence on making decision, and fixed cost can be important only in rare instances of a great change. Also, cost can be classified by methods of accumulation, measurement and composition. According to method of accumulation, it is divided into job and process costing. The former is widely used in laboratory. Based on measurement, it divided into actual, normal and standard one. The normal costing method is used in laboratory. Indirect cost is the remaining one excluding direct cost, and is subject to indirect if it is difficult to calculate or track. But, the reason why overhead is important is that proportion of overhead items in medical care tends to be high. Thus, how to calculating indirect cost can induce overestimating and underestimating. In income statement, the sales cost is the one required to produce profit, and gross profit on sales can be acquired excluding sales cost from the total sales. Operating profit can be acquired excluding operating expense from gross profit on sales. The operating profit becomes key information in the laboratory management performance. The sales cost, in which various components such as direct and indirect cost are reflected, is important.

Cost Volume Profit (CVP) analysis give us much information. Break-even point, information about the testing volume and total sales needed to obtain goal, effects on profit by variable cost/volume change and information about facility investment can be acquired. If making decision with CVP analysis, checking the sales avenue for the target and the sensitivity for the profit are possible.

The accounting is a communication tool with administrative and business management department. When establishing strategies for cost-effective laboratory management, industrial characteristics are considered. Especially, specialist in laboratory medicine is needed because it is difficult for personnel in financial department to analyze complex laboratory cost. Not only direct cost but also indirect cost is crucial in laboratory medical cost. Thus, proper calculation is needed. CVP analysis can give us information about profit sensitivity. With profit sensitivity, we can analyze variable cost, volume and sales and determine investment. More information needed in financial management of laboratory is to establish the budget through standard costing, and to find the best investment.