CHAPTER 1

1. Work through evolving a concept using Table 1.1. Write down a complete list of items and then review how each particular element might impact the other elements holistically.

   Answer: It’s important to create a complete vision of what your future will look like and to strengthen your ability to think holistically.

2. Conduct research online and figure out what business cycle the economy is in currently. Also, give reasons for why you believe the economy will be in a particular part of the business cycle two years from now.

   Answer: Look at the Economic Analysis websites listed in book along with websites listed online under the Students tab. Consider business cycle trends listed in Table 1.2. Use the Conference Board Leading Economic Index™ to help predict the future.

3. Ensure that each group member understands why profitability is more important than the total number of competitors in a marketplace. Have each group member outline an initiative involving a target market that could be launched to obtain more market share.

   Answer: The determination to start a new venture should be based on how much profit your business organization is estimated to generate. If the profit levels are sufficient, it should not matter how many competitors exist in the marketplace. To capture a sufficient level of profit and increase the efficiency of marketing efforts, an organization can focus on a target market as listed in Table 1.6.

4. Reflect on what an individual might think about when considering a health care provider and write down examples of how each of the 11 types of consumer behavior might relate.

   Answer: A person will consider time, money, and energy, but they will also look for someone that appears competent. Think about the appearances you make and how they convey an image of competency. The 11 consumer behaviors can be found in Table 1.7.

5. Have each group member give at least one example of a contemporary trend affecting the health care profession. Has the professional association made attempts to address the matter?

   Answer: Make sure you keep contact information for relevant professional associations handy. If you encounter negative publicity or potential legislations, alert the associations along with other local health care providers in your field to ensure proper action is taken.

6. If competition is high, how might a health care provider use a strategy of differentiation?

   Answer: A health care provider can differentiate services by enhancing the quality of communication skills, services, or clinic environment.
CHAPTER 2

1. Get a map of the area around your school or a desired practice location (you can print one from maps.google.com). Travel around the immediate area or conduct research online and compile a territory worksheet. Dedicate at least two classifications to each of the four categories: people, places, events, and objects. Define attributes for each classification and compile marketing notes. Finally, highlight items on the map using pins and markers.

Answer: A free territory worksheet can be found online at remedybooks.com under the Students tab. Leave no stone unturned as you examine every little thing around your marketplace. You may not realize how people, places, events, and objects will serve a marketing purpose currently, but you will soon appreciate how randomly marketing opportunities surface.

2. Fill out a territory worksheet involving ten separate network participants. The worksheet should include at least four classifications. An individual can function as a classification or exist as an attribute of another classification. Consider friends, family, significant others, or random persons. Do any target markets come to mind?

Answer: Make sure that a classification captures a key individual or group of individuals. Then, attributes reflect key details about the classification listed. Marketing notes are then compiled to track marketing efforts.

3. Fill out a territory worksheet involving ten separate referral sources. The worksheet should include at least four classifications. An individual can function as a classification or exist as an attribute of another classification. Consider friends, family, significant others, or random persons. You may need to create fictitious referral sources if none currently exist.

Answer: Make sure that a classification captures a key individual or group of individuals. Then, attributes reflect key details about the classification listed. Marketing notes are then compiled to track marketing efforts.

4. Outline a marketing campaign involving three to four local small businesses. Consider restaurants, attorneys, grocery stores, and so forth. Include the frequency and form of intensity that seems appropriate. List how each of the four types of marketing tools will be employed.

Answer: A territory worksheet can be used to categorize local small businesses into classifications. Each classification will list attributes of the businesses including the names of owners and employees. Marketing notes contain information on how to present yourself to each classification, connect with individuals at these businesses, and list marketing tools to be used. Local small businesses can serve as a launch off point to expand your community with help from advertisements, websites, media spots, and collateral. Use marketing tools to connect with local small businesses and then have local small businesses use marketing tools on your behalf.

5. Formulate a questionnaire with three to four questions meant to determine the number of new patients who came from the preceding marketing campaign.

Answer: The questionnaire should be brief and include a rating system useful in tracking changes over time. The questionnaire should reference specific items, but also provide space for survey respondents to leave general feedback.
6. Imagine a questionnaire showed that 8 new patients came from a specific advertising campaign directly; 4 new patients had heard about the organization before, but the marketing campaign served as a useful reminder to initiate care; an additional 2 new patients had heard about the organization before but had already planned to set an appointment. How should revenues from these 14 new patients be allocated against marketing expenses in figuring net profit?

**Answer:** Accounting concepts learned later will be helpful in making this assessment. A questionnaire provided to new patients when filling out their medical history helps to isolate the various sources of new patients. Most new patient questionnaires ask respondents to specify one source, but new patients should list all the ways that they heard about your organization and give feedback on what method was most important. The organization can then look back into accounting records or marketing notes to determine how much was spent on specific advertising activities.

**CHAPTER 3**

1. **As a group, greet each member in a professional manner and provide a way for everyone to remember your name.**

   **Answer:** Remember that it becomes difficult to pass along word of mouth if people forget your name. Practice greeting people in order to strengthen first impressions and better connect with people right from the start.

2. **Write eight narratives related to each category of sales resistance: time, energy, money, preconceived notions of the organization, preconceived notions of the profession, already uses a health care provider, bad prior experience, and unspoken resistance.**

   **Answer:** Write down a paragraph on each item listed and tailor your narrative to fit your personality. Memorize and practice these narratives to ensure everything is communicated in a fluid manner and avoid sounding robotic. These narratives will help ensure key information is conveyed in a professional manner.

3. **Read the case studies in Appendix I and consider ways to improve the introduction, rapport-building effort, qualification, and sales approach for each.**

   **Answer:** Learn as many narratives as possible and practice using sales techniques in different circumstances to strengthen your ability to connect with a wide range of people. Take note of how the selling process took place in each of the five case studies contained in Appendix I and offer suggestions for improvement.

4. **As a group, seek out an area business willing to host a sales luncheon.**

   **Answer:** Download the sales luncheon assignment found online at remedybooks.com under the *Teachers* tab. This assignment represents the main business project for the book.
CHAPTER 4

1. Find a local health care clinic willing to allow your group to review the full patient experience. A patient retention checklist can be downloaded online at remedybooks.com under the Students tab. Describe the nature of each item listed on the checklist in relation to this clinic, mention if problems exist, and provide ideas for improvement. Feel free to review additional items not contained on the checklist.

Answer: Compiling a territory worksheet should occur at least annually in terms of your own organization. This worksheet is meant to ensure the patient experience remains enjoyable and nothing gets overlooked, bearing in mind how small disturbances in the patient experience can compound over time.

CHAPTER 5

1. How might an insurance company respond to price discrimination? What are the advantages and disadvantages to running a cash practice?

Answer: Offering services to patients at different prices could cause an insurance company to remove you from their insurance panel or demand a refund resulting in a legal dispute. Review what laws apply in your state in terms of price discrimination. In many states, a health care organization must charge covered patients the same as cash patients and provide the same level of service to both.

2. Define price inelasticity and explain why the health care industry might not experience a sizable decrease in demand levels if prices increase. How might higher prices impact accessibility and profitability, especially when considering expenses?

Answer: In the field of economics, the impact of prices on demand levels is an important topic. Price inelasticity refers to how the demand for services may not significantly change with price levels. Because people need health care services, they may forego other purchases before reducing the demand for medications or health care appointments.

3. Once an organization establishes its primary lines of service, what might cause the organization to hesitate about introducing additional lines of service? Under what circumstances would the introduction of secondary service lines lower overall profitability?

Answer: Introducing new service lines may increase administrative costs to the point where profit levels begin to fall. A new service line may cannibalize demand for highly profitable service lines reducing profit levels as well. The time and energy involved with managing a service line should also be considered.

4. Call approximately ten health care providers and ask what general services they offer as well as their fees. Mention that the question relates to a homework assignment if necessary and assure the respondent that answers will be kept confidential. Create a list of responses using only general labels, that is, competitor 1 through competitor 10.
**Answer:** It’s important to understand what competitors charge to configure your own prices. It’s also important to look at the demographic variables of the community from where you will draw patients. Consider accessibility along with extraneous costs, including gas and food, when setting price levels.

5. Each group member should formulate a marketing plan outline comparable to the hypothetical one presented in this chapter. Provide assistance to group members who know where they intend to practice and work together to list ideas under each heading.

**Answer:** Create an outline using the headings shown in the hypothetical marketing plan found at the end of chapter 5. Begin to compile information for your own marketing plan (or group member’s plan) and understand that marketing plan should evolve over time as a business grows and receives feedback.

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**CHAPTER 6**

1. What is the purpose of the double-entry accounting system? What do the debits and credits represent?

**Answer:** Do not think of debits and credits are negative or positive amounts. A business transaction is recorded twice, once as a credit and once as a debit, as an internal control measure. If all debits do NOT equal all credits, then that signals an error exists in the accounting system. Using double entries helps protect the integrity of information found in the accounting system and alerts to when information has been recorded incorrectly.

2. What does it mean to use a description account and how would such an account oppose cash?

**Answer:** Often times, a transaction will involve receiving or paying cash. One side of a double entry will alter the cash balance, requiring the other side of the entry to simply describe what has been done with cash. Remember that all debits must equal all credits. A debit entry to cash means that the description account must be recorded as a credit, and vice versa.

3. Please provide a definition for each of the seven categories of accounts: asset, liability, equity, revenue, expense, gain, and loss. To what accounting report(s) do these accounts originally flow?

**Answer:** Most asset, liability, and equity accounts flow to the balance sheet except for owner distributions and retained earnings. Revenue, expense, gain, and loss accounts are netted together on the income statement. Owner distributions are deducted from this net amount representing the earnings retained by the organization. These retained earnings are finally placed on the balance sheet.

4. Describe the difference between a journal entry and an adjusting journal entry.

**Answer:** A transaction is recorded into the accounting system using a journal entry. To maintain proper records in the accounting system, the journal entry should never be deleted. An adjusting journal entry would be made to modify amounts previously recorded into the accounting system.
5. Suppose an organization just received $244 to cover payment for services administered to a patient the previous month. Write two sets of journal entries according to the cash method and accrual method of accounting.

**Answer:** The journal entry involving the cash method will record a debit to cash and a credit to revenue in the amount of $244 when received. The accrual method would involve recording the transaction when services were rendered in the previous month using two description accounts: A credit to revenue would be offset against a debit to accounts receivable. The receipt of cash would result in a debit to cash and an offsetting credit to accounts receivable reversing one of the description entries made in the previous month.

<table>
<thead>
<tr>
<th>Cash Method</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>244</td>
<td>244</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Statement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To record receipt of cash.

<table>
<thead>
<tr>
<th>Accrual Method</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>244</td>
<td>244</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Statement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To record services rendered.

<table>
<thead>
<tr>
<th>Accrual Method</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>244</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>244</td>
<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To record receipt of cash.

6. Explain the difference between a general ledger and a subsidiary ledger. How might a subsidiary ledger be structured in relation to the accounts receivable, accounts payable, or inventory account?

**Answer:** All of the transactions that relate to a particular account are listed under the general ledger usually per transaction date. This listing can be rearranged as a subsidiary ledger according to different criteria to better organize transactions.

7. What is the total amount of liabilities presented on the balance sheet if net assets equal $50,000 and an organization has negative $5,000 in equity?

**Answer:** The total amount of liabilities and equity must equal assets. In order to get this balance sheet into balance, this organization would need to show $55,000 in liabilities.

8. Under what circumstances would you increase the value of an asset to reflect its current market value? When might you record an impairment?

**Answer:** There are NO circumstances in which an asset’s price would be increased to reflect its market value according to standard accounting and tax rules. However, certain account balances can be reduced if a significant drop in market price occurs, representing an impairment. Inventory and fixed assets are examples where an impairment might need to be recorded.
9. How does the statement of retained earnings link the income statement to the balance sheet? What account(s) are normally listed on the statement of retained earnings?

**Answer:** Revenue, expense, gain, and loss accounts are first listed on the income statement in order to net them all together. The net total is transferred over to the statement of retained earnings where owner distributions reduce this net balance further. What remains are amounts “retained” by the organization. This amount of retained earnings flows to the balance sheet.

10. Write a journal entry to report the purchase of the following long-term equipment: an $800 computer, a $1,500 treatment table, and a $2,300 telephone system. Assume that the organization has a capitalization policy of $1,000 that complies with what tax authorities prescribe.

**Answer:**

<table>
<thead>
<tr>
<th>Purchase of Assets</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Expense</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Medical Equipment</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>2,300</td>
<td>4,600</td>
</tr>
<tr>
<td>Checking Account</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To record purchase of equipment for $4,600.

11. What might happen if a tax authority audits an organization and expenses cannot be supported with documentation? What type of documentation could an organization provide?

**Answer:** Expenses could be denied resulting in an increase to taxable income and an assessment for back taxes. Documentation that auditors may review includes receipts, vendor invoices, bank statements, processed checks, and so forth.

12. Why is it important to prevent one person from both handling cash and being allowed access to modify the accounting system?

**Answer:** An employee or external bookkeeper can easily defraud an organization if allowed to both receive cash and retain the ability to control the recording of revenue. An organization must actively prevent someone that handles cash from gaining accessing to the accounting system, either directly as part of a job duty or indirectly as an unauthorized act.
CHAPTER 7

1. The month-end bank statement reports a cash balance of $2,954. An organization member recently dropped off a cash deposit in the amount of $498 but this does not yet appear on the statement. Three recent checks in the amounts of $84, $276, and $1,645 reported in the accounting system did not appear on the bank statement either. Calculate the cash balance that should be reported on the balance sheet based on the bank statement and reconciling items.

Answer:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank statement</td>
<td>2,954</td>
</tr>
<tr>
<td>Add: Deposits in transit</td>
<td>498</td>
</tr>
<tr>
<td>Less: Unprocessed checks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-84</td>
</tr>
<tr>
<td></td>
<td>-276</td>
</tr>
<tr>
<td></td>
<td>-1,645</td>
</tr>
<tr>
<td>Balance per accounting system</td>
<td>1,447</td>
</tr>
</tbody>
</table>

2. Describe the difference between the cash and accrual methods of accounting. Under the cash method, why would the amounts owed to an organization not be reported on the balance sheet? How might an organization keep track of such information?

Answer: The cash method only requires a transaction to be recorded when cash or cash equivalents are received or paid. Under the accrual method, a transaction is always recorded when a business event takes place, such as rendering of services. The accrual method makes use of two description accounts if cash or cash equivalents are not received or paid out currently. Amounts owed to an organization would not appear on the balance sheet under the cash method because cash or cash equivalents would not be received yet. The organization would need to track such information behind the scenes in the accounting system.

3. Go online to irs.gov and search for Publication 946. Using the MACRS tables in the appendix, calculate what the depreciation expense would be each year for a $6,000 piece of office furniture. Pay attention to the asset class. How much depreciation could be taken in the first year under Code Section 179 assuming the organization qualifies?

Answer: Office furniture is 7-year property as listed in Table B-1 in Publication 946. The depreciation rates for MACRS 7-year property are listed in Table A-1. The rates are multiplied by the $6,000 amount each year. According to section 179 of the U.S. tax code, the full amount of $6,000 would be taken as depreciation expense in the year the asset is placed into service.
4. The normal straight-line depreciation rate for a 15-year asset is 6.67%. What would the 150% declining-balance rate be? Assuming that the full amount of depreciation expense is taken in the first year on an asset that cost $20,000, how much depreciation expense would be taken in the second year according to the 150% declining-balance method?

Answer: The depreciation rate is 150% of 6.67% totaling 10.00%. The depreciation in the first year would reduce the asset’s net value to $18,000 causing the second year’s depreciation to equal $1,800 ($18,000 x 10%).

5. Complete the following journal entry.

<table>
<thead>
<tr>
<th>Sale of Capitalized Asset</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking Account — General Accumulated Depreciation (b) Medical Equipment</td>
<td>(a) 8,425</td>
<td>(c) 19,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance Sheet</td>
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<td></td>
<td></td>
<td>Balance Sheet</td>
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<tr>
<td></td>
<td></td>
<td>Balance Sheet</td>
</tr>
</tbody>
</table>

To record sale of x-ray machine for $6,500.

<table>
<thead>
<tr>
<th>Sale of Capitalized Asset</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking Account — General Accumulated Depreciation Medical Equipment</td>
<td>6,500</td>
<td>8,425</td>
</tr>
<tr>
<td>Loss on Sale of Asset Medical Equipment</td>
<td>4,075</td>
<td>19,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance Sheet</td>
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<td></td>
<td></td>
<td>Balance Sheet</td>
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<td></td>
<td>Income Statement</td>
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<tr>
<td></td>
<td></td>
<td>Balance Sheet</td>
</tr>
</tbody>
</table>

To record sale of x-ray machine for $6,500.

Answer:

6. Explain why a portion of long-term debt should be reclassified each period to current liabilities. What other asset and liability accounts invoke this same treatment?

Answer: Current liabilities represent obligations that need to be settled over the coming year. The portion of long-term debt set to be paid over the coming year needs to be moved up to the current section of the balance sheet reducing the long-term portion. Obligations under capital lease is another account that receives this same treatment.
7. Review the criteria set forth by U.S. tax code that require an organization to capitalize a lease. List the different accounts used for an operating lease in contrast to a capital lease. How much interest expense would be reported over the life of a capital lease if the underlying asset has a value of $19,000 and the lease agreement requires eight payments of $3,000 each?

**Answer:** The payments total $24,000 (8 x $3,000). The amount treated as interest over the life of the capital lease would equal $5,000 ($24,000 - $19,000). Accounts used to record the asset’s original and depreciated value include an equipment account, obligations under capital lease, accumulated depreciation, and depreciation expense. Each lease payment would reduce the obligations under capital lease account, reduce cash, and result in an interest expense.

8. How is owner’s equity presented on the balance sheet of a corporation? Is there a specific amount of stock that a corporation must authorize and should the stock have a specific par value?

**Answer:** The par value of stock represents an arbitrary amount that the business owner can set. The amount contributed into a business in exchange for stock is treated in two ways. The amount representing the stock’s par value is placed under the stockholder’s equity account. The amount of stock authorized, issued, and outstanding is normally provided after the account’s name. Amounts contributed in excess of the stock’s par value are treated as additional paid-in capital.

**CHAPTER 8**

1. How could understanding accounting concepts help with management decision making? How might better decision making allow more time to be spent with patients instead of dealing with administrative issues or marketing?

**Answer:** Accounting information provides insight into nonquantitative aspects of the organization, namely the patient experience. If amounts change in a negative direction, management would receive a signal to explore the issue in more depth. Supporting the patient experience means that less time has to be spent marketing to recruit new patients. Positive word of mouth and referrals will spread enhancing marketing efforts for free. Better management decision making can reduce administrative errors and inefficiency allowing less time to be spend performing administrative duties and correcting problems.

2. Define segmentation. What importance does it hold for an organization with several distinct service lines? What are ways that information can be segmented in the accounting system?
Answer: Many times, transactions that relate to different business activity will be lumped under one account. In order to properly assess the specific types of activity, transactions within an account can be separated and displayed in a subaccount.

3. List the six categories of financial ratios and explain the role that each has in business analysis.

Answer: Debt ratios examine the overall risk that liabilities impose and an organization's ability to service debt payments. The current ratio isolates the ability to service liabilities over the next one-year time period, including the current portion of long-term debt. Profitability ratios look at how well the organization has put to use assets, equity, and expenses to generate revenue. Operating ratios do the same but look more specifically at standard business activity. Billing ratios look at how well revenue is collected. Finally, patient ratios review activity related to customer behavior.

4. What financial ratios would you want to see increase over time? What ratios signal that a problem might be occurring if they increase?

Answer: The reading of financial ratios is not a straightforward process. Certain ones reflect an improvement if they increase whereas other point to problems if they increase. Most of the liquidity, profitability, and operating ratios show improvement when increasing. It's best to compare ratios over time to determine the extent of improvement.

5. Define variance. What financial statements correspond to the operating and financial budgets, respectively?

Answer: A variance represent the difference between activity budgeted at the start of a time period and actual amounts known at the end of the time period. An operating budget covers income statement accounts whereas a financial budget presents balance sheet accounts.

6. What is the main purpose of a cash budget? In what ways could a cash budget be structured?

Answer: A cash budget looks to ensure that a cash shortfall does not occur. Even when inflows of cash exceed outflows, a timing difference could cause a cash shortfall to come about. An organization also needs to ensure enough cash will be available before making large capital outlays, such as for new equipment.

7. Why is it important to closely manage payroll expenses?

Answer: Payroll expenses often represent the largest expense for an established organization. Any inefficiency in how job functions are performed can reduce profit levels significantly. Also, payroll expenses reflect how well employees perform job duties.

8. If variable expenses average 18% of revenue and fixed expenses equal $38,000 per year, how much annual revenue would an organization need in order to reach its breakeven point?
Answer: Revenue minus variable expenses equals the contribution margin. The contribution margin must exceed fixed expenses before an organization can generate a profit. The minimum amount of revenue needed to break even can be found by dividing fixed expenses by 1 – the variable expense rate. In this case, the breakeven point equals $46,341 ($38,000 ÷ 82%).

CHAPTER 9

1. How would an individual-member LLC report tax information? What would happen to the filing requirements if a new member joined the LLC?

Answer: A single-member LLC reports tax information the same way as a sole proprietor on Schedule C of Form 1040 at the individual level. Adding another member to an LLC causes it to function as a partnership where tax information would be reported on Form 1065 before being reported separately on each of the member’s individual tax returns.

2. Explain how an owner of an S corporation avoids double taxation and might not be faced with the same level of payroll taxes as other business forms. What might prevent a health care organization from operating as an S corporation?

Answer: An S corporation rarely pays a corporate-level tax avoiding double taxation of dividend distributions. Suppose a business earns $100,000. That full amount would be subject to payroll and income taxes if the business form were an LLC, partnership, or sole proprietorship. An S corporation could distribute some of this $100,000 as a wage and then rest would be distributed as a dividend. However, only the amount considered wages would be subject to payroll taxes. A dividend distribution from an S corporation is the only income that is not subject to either payroll or corporate taxes. An income tax would still apply.

3. What must an owner of a corporation do to ensure that the corporate structure remains intact and that personal protection against the claims of creditors are not pierced?

Answer: A corporate business owner (including an LLC) must perform appropriate corporate governance to ensure the corporate business form maintains its status as a separate legal and tax entity. Such governance activities include keeping personal and business bank accounts separate, holding annual meetings, paying state incorporation fees, and maintaining a Board of Directors.

4. Describe the two general categories of payroll taxes levied at the federal and state levels. What happens if a state requires worker’s compensation insurance but does not provide coverage directly?

Answer: Payroll taxes at the federal level involve unemployment insurance and FICA, an abbreviation referring to Social Security and Medicare. A state will require unemployment
insurance and worker’s compensation, but a third-party insurance provider may provide the worker’s compensation coverage.

5. Log onto your state’s Department of Revenue website and research if the tax system contains an income, personal property, gross receipts, or consumption tax.

Answer: Most states levy an income tax, which takes into account business expenses. A gross receipts tax is used in some states and ignores any deduction for business expenses. A personal property tax is levied on the amount of equipment an organization holds. Finally, a consumption tax is normally levied on a percentage of retail product sales. Inventory purchases and service revenue are normally not subjected to a consumption tax.

6. A health care organization uses the cash method of accounting and usually receives payment on 80% of its invoices within 30 days. What should this organization do if tax rates in the next tax period are expected to decrease? How could the organization manage expenses and fixed asset purchases?

Answer: This organization could reduce its overall tax liability by encouraging the receipt of revenue to take place in the next time period when tax rates are set to decrease. Any incentive to pay within 30 days could be removed. The organization can slow its billing process to ensure invoices are sent later. Purchases of office supplies, equipment, and other tangible goods could be made in the current time period to receive the deduction when the tax rates are higher.

7. Go online to irs.gov and review Chapter 2 of Publication 505, Tax Withholding and Estimated Tax. What are the four estimated tax payment deadlines?

Answer: Estimated tax payments for the current period must be made April 15th, June 15th, and September 15th of the current year. The fourth estimated tax payment is made on January 15th of the next year. Exceptions are made if the 15th day of the month falls on a holiday or weekend.

CHAPTER 10

1. What internal control measures could be used to ensure that all inflows of cash are deposited in a bank account? What internal control measures could be used to ensure that all outflows of cash have a legitimate business purpose?

Answer: Any cash received should be documented by one organization member and then reviewed. Another organization member or external bookkeeper could then post transactions to the accounting system using this documentation. Finally, the accounting information and cash documentation could be reviewed before being deposited in the bank. Fraud could also occur if a check is written to an illegitimate vendor. Restrictions should be set in place to limit the addition of new vendors.
2. How could an organization quickly verify that expenses reoccurring on a monthly basis were recorded properly?

**Answer:** A particular vendor could be isolated and scanned in the general ledger to confirm that 12 monthly payments were made and that no amounts appear abnormal.

3. Which items could be verified using third-party documentation? Which ones could be verified with a physical count?

**Answer:** Various expense accounts could be verified using vendor invoices, account statements, and Forms 1099. Inventory, equipment, and office supplies could be verified with a physical count.

4. Why does Quickbooks only require the user to input one side of an otherwise dual-sided journal entry when posting revenue and expense activity?

**Answer:** In many sections of the program, the user will input information into one field and Quickbooks automatically applies the amount to two separate accounts creating a double-sided entry.

5. List some ways that Quickbooks establishes internal controls. Consider vendors and segregation of duties in your response.

**Answer:** An administrator can restrict how users interact with Quickbooks, including what information can be visible or modified. Restrictions can be placed around adding a new vendor or posting transactions.

6. Why should organization members record their hours worked along with job codes in a timesheet?

**Answer:** Payroll expenses often represent the largest expenses for an established organization. Tracking hours according to job codes helps ensure organization members perform work efficiently and they are not engaged in unwanted activities.

7. Explain how a bank reconciliation works within Quickbooks. What do the unchecked items represent?

**Answer:** A pop-up screen will appear allowing the user to enter the cash balance per the bank statement. The user can then check items that appear on the bank statement. Any unchecked items represent deposits in transit or cash outlays that have not yet cleared the bank.

8. Why doesn’t Quickbooks ask an organization to select an accounting method during the initial interview guide? Since an organization always needs to keep a record of accounts receivable and accounts payable, what happens to this information if a report is run under the cash method?

**Answer:** Quickbooks requires an organization to always put information into the accounting system according to the accrual method as business events occur. Reports are either shown according to the cash or accrual method per a selection made within the *Modify Report* screen.
1. A country has produced products and services worth $8 trillion in the current year. Would the economy experience inflation or deflation if the total money supply equaled $8.5 trillion? What would happen if the money supply contracted to less than $8 trillion?

**Answer:** Inflation can surface if the total money circulating through an economy is more than what consumers need to buy all the goods and services made available. If not enough money exists, prices will fall until all the goods and services can be obtained with the money that is available.

2. What are the two main components of the discount rate?

**Answer:** Investors must be compensated for risk and inflation. These two elements are combined together into one understandable number referred to as a discount rate.

3. Suppose that an organization wants to fund a $200,000 project. A bank will loan $144,000 of the capital needed at an 8% cost of debt (interest rate). The business owner will contribute the remaining $56,000 using personal funds, but will want to generate a 15% rate of return on personal money (cost of equity). A tax professional was contacted and believes that interest on the bank loan will be tax deductible at a 35% marginal tax rate. What discount rate would the organization use for this project?

**Answer:** The target percentage rate for debt equals 72% ($144,000 ÷ $200,000). The cost of debt must be reduced to 5.2% (8% x 65%) reflecting the tax savings of 35%. The target percentage of equity would total 28% ($56,000 ÷ $200,000). The weighted average cost of capital formula could then be used to configure the discount rate. In total, the WACC would equal 7.9% (72% x 5.2% + 28% x 15%).

4. Explain what compound growth means and how it applies to a period of continuous inflation.

**Answer:** The concept of compound growth refers to how amounts can accumulate over time where the addition of a new layer of money adds to the growth of layers in future time periods. Inflation can compound over time when an increase in prices is based on the accumulated amount of inflation from all prior time periods.

5. What does it mean to set future cash flows into net present value terms? How does a discount rate factor into this process?

**Answer:** Finance involves forecasting cash flows set to occur in the future. The act of estimating cash flows introduces an element of uncertainty (risk). An attempt can be made to reduce cash flows for any estimated level of risk causing the future cash flow to be reset into a present day
equivalent. This medication is made by dividing future cash flow by a discount rate that combines risk and inflation together.

6. Calculate the net present value of the following cash flow stream given a discount rate of 12%.

<table>
<thead>
<tr>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>(10,000)</td>
<td>3,500</td>
<td>3,500</td>
<td>3,500</td>
</tr>
</tbody>
</table>

**Answer:** The net present value (=NPV) function in Microsoft Excel can be used to make this calculation. The NPV equals negative ($1,423).

7. What will an $800 printer cost in two years if economists estimate the rate of inflation will be 3.5% and 4.5% per annum, respectively?

**Answer:** The $800 amount must be multiplied by 1.035 and 1.045 to reflect inflation in each of the next two years. One is added to the inflation rate for mathematical purposes. The printer will cost an estimated $865 in two years.

8. Imagine a $100,000 loan has been paid down and now has a current balance of $83,439. Each fixed monthly loan payment is $974 and the annual interest rate is 8%. What portion of the next loan payment would be treated as interest expense versus principal?

**Answer:** The 8% annual interest rate must be converted into a monthly equivalent. The amount to apply each month equals .67% (8% ÷ 12). This .67% would be multiplied by the current loan balance of $83,439 to derive an interest charge of $559. The amount applied to principal thus reducing the loan balance further equals $415 ($974 - $559).

**CHAPTER 12**

1. Why would future cash flows be discounted into net present value terms while initial cash flows occurring in the present moment remain undiscounted?

**Answer:** Future cash flows are exposed to uncertainty (risk) due to the fact that they are estimated. A current-day cash flow is highly certain and does not need to be modified for risk.

2. Under what conditions would a health care provider insert an artificial cost (equivalent hourly rate) for time and energy into a financial calculation?

**Answer:** A health care provider will earn money when engaged in revenue producing activities. If time must be spent away from revenue producing activities to deal with administrative or marketing functions, an opportunity cost could be reflected in any financial projection. Placing
this artificial costs into a financial projected would not be warranted if administrative or marketing activities will not impede on a health care provider seeing patients.

3. Suppose a health care organization has the option of using a professional bookkeeper who charges $40 per hour versus hiring an internal employee to maintain accounting information. The market rate for employees with technical bookkeeping skills is $16 per hour. What are some assumptions that should be considered when setting up a net present value calculation to see which option would provide the most value?

**Answer:** Will a health care provider face substantial opportunity costs due to the time involved with managing an internal employee? The organization should consider other payroll, office, and computer expenses that an internal employee will require. Nonfinancial constraints, such as the ability to terminate an underperforming external bookkeeper, should be considered as well.

4. An organization member has found that local businesses report an average sales growth of 5% after advertising with a particular coupon book. Assume that current revenue equals $150,000 and the coupon ad will cost $2,200 to run annually. Also, it will take six hours of time at an equivalent rate of $55 per hour to put the ad together initially. Find the internal rate of return for this venture across two time periods using a spreadsheet program, such as Microsoft Excel, to perform the calculation.

**Answer:** The additional revenues will total $7,500 ($150,000 x 5%) per year. The opportunity cost related to the time involved with putting the ad together equals $330 ($55 x 6 hours).

5. Calculate the payback period for the following cash flow streams. How does finding the payback period differ from calculating the NPV? What would the IRR be for this data set? What other issues should an organization bear in mind when reviewing these cash flows?

<table>
<thead>
<tr>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unadjusted</td>
<td>(16,000)</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Discounted</td>
<td>(16,000)</td>
<td>4,545</td>
<td>4,132</td>
<td>3,757</td>
<td>3,415</td>
</tr>
</tbody>
</table>

**Note:** Input amounts into a spreadsheet program and run the calculations.
**Answer:** Use functions in Microsoft Excel to perform the calculations. The NPV can be found by summing together all the discounted cash flows.

<table>
<thead>
<tr>
<th>Undiscounted</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>(16,000)</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

**IRR = 17%**

Payback Period 3.2 years

<table>
<thead>
<tr>
<th>Discounted</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>(16,000)</td>
<td>4,545</td>
<td>4,132</td>
<td>3,757</td>
<td>3,415</td>
<td>3,105</td>
<td></td>
</tr>
</tbody>
</table>

**NPV = 2,954**

Payback Period 4.1 years

6. **How does the calculation of a correlation differ from the coefficient of determination? What do both of these calculations attempt to accomplish in regards to two arrays in a data set?**

**Answer:** A correlation can be calculated using the =CORREL function in Microsoft Excel. The coefficient of determination can be found by squaring the correlation number. Both of these formulas attempt to specify how one activity influences another.

7. **Why would it be important to understand whether a regression line follows a linear or quadratic pattern? What functions in Excel could be used to determine the shape of a regression line along with the regression line formula.**

**Answer:** The =SLOPE and =INTERCEPT functions in Microsoft Excel can be used to establish a regression formula. The =LOGEST or =GROWTH function can provide feedback about any quadratic shape, which demonstrates the compound growth effect.

8. **Describe two functions in Excel that could be used to calculate amounts related to a loan.**

**Answer:** The =PMT function can be used to determine loan payments. The =RATE function is helpful when the interest rate on a loan is unknown.

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**CHAPTER 13**

1. **How might taking over an existing health care organization be problematic because of the need to always recruit and retain new patients?**

**Answer:** The current patient base will not remain forever with an organization that is purchased. Patient will end care for a multitude of reasons and only a portion will restart care in the future. A
health care provider that takes over a clinic must have a personal source of new patients in order to replace the ones that leave.

2. What is the main goal of conducting a review of historical activity? How might macroeconomic, industry, and marketplace forces influence the review of historical activity?

Answer: The historical patterns involving a particular business activity can potentially be carried forward into future time periods as part of setting up a cash flow projection. Changes in the overall macroeconomic, industry, or marketplace could cause historical patterns to shift, requiring modification to be made to the projection of future cash flows.

3. Explain the four components of the risk premium.

Answer: A systematic risk involves any event large enough to impact the overall economic system. Such events may involve a recession, tax changes, regulations, natural disasters, or war. An operating risk is smaller in scope and will only impact an industry or specific company. The loss of a key customer or vendor contract represents an operating risk. The risk caused by debt levels is referred to as financial risk. A model risk also exists in terms of the person putting together the cash flow projection correctly.

4. List the four steps to follow when projecting an income statement. How might these steps differ for someone forming a new organization versus buying an existing one?

Answer: A financial projection starts with a review of historical activity. A brand new organization will have a limited amount of historical activity to assess. Assumptions are then formed to forecast revenue in terms of historical activity, marketing efforts, and the results of the top-down analysis. Some of these same assumptions are used to forecast specific expense activity. New assumptions must be formed for the remaining expense accounts or subaccounts. The combination of these assumptions along with an estimation of inflation is used to establish the projected cash flow stream.

5. What are the five main categories of revenue assumptions to examine?

Answer: A health care organization will need to estimate any general decline that might occur if patients are transitioned from one clinic or health care provider to another. The flow of new patients must then be determined along with former patients that may restart care. Activity set to take place in the terminal year is meant to capture any residual patient base that might remain with a newfound organization on a long-term basis. The patient margin is used to configure how much revenue the patient base will provide.

6. What is the importance of isolating the value that a seller’s community, business assets, reputation, human resources, and patient base offer? Why would a health care provider not want to pay for value that could otherwise be generated through personal efforts apart from the existing business?

Answer: The main purpose of buying a health care clinic involves obtaining value that could not be created personally—at least in a rapid manner. A health care provider should not buy value that could be generated without the help of another health care provider’s community, business
assets, reputation, human resources, and existing patient base. Doing so means that another person has been paid for work you performed—you should bear the fruits of your labor.

7. How does the FCFE calculation differ from the FCFF calculation? In what way do these methods address the value available to debt versus equity holders differently?

Answer: Not all of the profit a business generates is available to investors. Various adjustments must be made to isolate “free” cash flows that can be transferred to debt and equity investors. A free cash flow to the firm represents an amount that is available to both debt and equity providers. A free cash flow to equity specifies only the amount available to business owners.

8. How does discounting terminal activity differ from discounting the main cash flow stream occurring across the preceding time periods?

Answer: The terminal year of a cash flow projection is meant to capture any residual value that will persist over a potential infinite time horizon. As such, the terminal year activity is first divided by the discount rate less an amount reflecting any long-term growth in the terminal cash flows. The final result must be discounted into present value terms for any remaining years shown in the cash flow projection.

9. What is the importance of resetting historical cash flows into present value terms when conducting a relative valuation?

Answer: Cash flows cannot be compared if the relative value of those cash flows is the same. Since inflation erodes the value of money, historical cash flows must be adjusted to account for the impact of inflation.

10. How could a buyer configure an appropriate multiplier in order to review the estimated sales price of a business?

Answer: A small health care organization might find it difficult to configure a multiplier for use in performing a relative valuation. A multiplier could be found in a trade publication or configured by a professional expert. If unavailable, a multiplier could simply reflect the desires of a business seller or buyer.

11. If a buyer has the opportunity to purchase a practice and building together, why would valuing each asset separately benefit the buyer’s attempt to clarify the value of each?

Answer: A building contains a set of value that is influenced by factors within the marketplace apart from a health care provider’s ability to manage a clinic. In most cases, a building will grow in value over time, either as equity in the building increases or the market value of property increases. The value of a practice reflects a different set of circumstances that should not be commingled with the building’s cash flow activity unless building costs surpass any increase in the building’s value.

12. Why does equipment reduce the value of a business instead of adding value to it?

Answer: Fixed assets are simply expenses held on the balance sheet to be reported in future time periods. All expenses of a business represent outflows of cash meant to support the
production of revenue. Paying money to purchase assets should come with the understanding that the price of such assets will serve as an expense either in the current moment or at some point in the future.

13. Go online to remedybooks.com and find the business valuation assignment under the Teachers tab. Use the Excel spreadsheet found under the Students tab to project cash flows and derive a net present value figure. If correct, the spreadsheet will let you know.

**Answer:** Working through the cash flow assignment will help to learn more about valuing any major transaction undertaken, including the potential purchase of a clinic. Develop some ability to assess the overall value of a venture before committing a significant amount of resources to it. The answers to the business valuation project can be found online under the Teachers tab.

**CHAPTER 14**

1. How could a person access funds maintained in a retirement account or insurance policy to cover business expenditures?

**Answer:** Amounts held in a retirement account or the cash-value portion of an insurance policy may be accessed by closing the account or policy. Penalties and taxes may apply. Certain retirement accounts, including a 401(k), allow account holders to borrow a limited amount of the account's balance. Interest charges would apply but they are payable directly to the account holder. An insurance policy may also allow policyholders to borrow part of the cash-value portion.

2. What drawbacks exist when borrowing money from a significant other, family member, or friend? Why should a private borrower and lender forge a loan agreement?

**Answer:** A relationship could become strained if the borrower defaults on the obligation. Ensure that any private lender can handle the risks and bear any financial loss. A loan agreement should always be formed between parties to prevent the IRS from recharacterizing the loan as a gift.

3. How could a health care provider access funds from investors looking for alternative investment opportunities?

**Answer:** A health care provider could seek venture capital either directly from wealthy investors through a sales presentation or indirectly through a venture capital fund looking to invest with very small businesses.

4. What key items will a lending institution (or the Small Business Administration) want to review when determining if a borrower is a good credit risk? How will those items differ if the loan size is large versus small?

**Answer:** A local bank office may have the authority to lend amounts up to a specific threshold. The financial assessment may involve a review of the borrower's credit score. For larger loans
above such thresholds, the lending decision may be routed to the bank’s corporate division. Along with the credit score, the corporate lending division may also look at a business plan, personal financial statements, and borrower’s integrity.

5. How does a cash flow loan differ from a collateralized loan?

Answer: A collateralized loan is secured by some type of asset that could be seized by a financial institution and sold if the borrower defaults. A cash flow loan does not carry this type of security and exposes the lending institution to greater risk as a result.

6. Why might a health care provider wanting to buy a building and practice need to acquire financing through SBA loan programs? What does the 7(a) loan program entail?

Answer: The Small Business Administration administers the 7(a) loan program meant to reduce the risk that lending institutions face when offering cash flow loans. This enables small business owners to obtain a cash flow loan to buy a practice or fund working capital needs at a reasonable interest rate. Negative loan covenants may prevent a borrower from obtaining another loan in the future requiring the business owner to satisfy all financing needs at once.

7. Describe how a line of credit functions and how it could provide a borrower with greater flexibility than a regular loan. Are there any drawbacks to using a home equity line of credit or taking a mortgage equity withdrawal?

Answer: A line of credit functions very similar to a credit card. A borrower is approved up to a set limit. The borrower can withdraw funds as needed and only bears interest charges on amounts withdrawn. The line of credit can be repaid at any time without any formal payment structure.

8. How does a seller-financed loan function for both the buyer and seller of an asset? What loan terms should both parties consider and potentially include in a loan agreement?

Answer: The buyer simply takes over an asset and begins making payments directly to the seller who acts as a lending institution. The lending arrangement must be set forth in a formal loan agreement. The agreement should contain provisions related to breach of contract, loan payments, noncompete restrictions, and the principal-agent relationship.

9. What are the advantages and disadvantages to leasing equipment?

Answer: An organization retains more flexibility to replace equipment that has simply been leased. The lessor may require less documentation than a lending institution would require. The lessee would not face as much leverage risk in case of weak financial performance. Overall, buying equipment may be cheaper than paying on a lease.

10. What types of contracts could be legally binding if only made orally?

Answer: Most contracts are legally binding when only confirmed orally. Statute of Frauds provisions within the Uniform Commercial Code specify what contracts must be evidenced in writing. Contracts pertaining to land, tangible goods over $500, and activities that cannot be performed within one year under all circumstances generally need to be written in order to become legally binding.
11. How might a health care organization limit an employee or independent contractor from forging unwanted contracts with external parties?

Answer: An organization must be proactive about telling an employee or independent contractor about what actions are unwanted or disallowed. Telling vendors, customers, or other external parties about these same limitations is also recommended, especially in instances where an employee or independent contractor runs a risk of engaging in unwanted activities.

CHAPTER 15

1. What is the difference between selling an investment product over-the-counter versus through a regulated exchange?

Answer: The exchange of investment securities over-the-counter occurs between private parties that set their own terms and are not bound by any restrictions imposed by a regulated exchange. However, a regulated exchange creates formal exchange provisions that help investors value investment products and facilitate the transaction. Easily exchanging investment products helps formulate efficient prices within the marketplace.

2. How does acquiring common stock in a company translate into equity ownership? What rights does equity ownership bestow? Provide a definition for IPO and market capitalization.

Answer: Stock is a legal agreement used to bestow ownership in a corporation. The stock certificate has value because a business owner has the right to receive free cash flows to equity that the corporation generates. The business owner will elect a board of directors to oversee the corporation and may vote on major issues. An initial public offering (IPO) represents the first time a corporation offers its stock on a public exchange. The total value of all the stock traded is referred to as market capitalization.

3. Why would an investor care if a bond held in an investment account falls from a BBB rating to a BB rating?

Answer: Companies with a BBB rating or higher are considered investment grade and have the ability to weather an economic downturn. Companies with a BB or lower rating maintain a speculative grade or junk rating. These companies will have a difficult time during a recession and may already be facing bankruptcy.

4. Explain the four categories of bonds and give an example of each.

Answer: The U.S. government issues Treasury bonds, agency bonds, and savings bonds. Local and state government also issue government bonds. A corporation will generally issue a plain vanilla bond that maintains a standard cash flow structure. International government and corporate bonds are now more accessible and allow an investor to exploit shifts in exchange rates. Finally, a structured product involves pooling together bank loans and repackaging them as nonstandard bonds.
5. What type of investment product would base its value on another investment product, such as oil or common stock?

**Answer:** A derivative investment product ties its cash flow structure to an underlying investment product, such as oil or common stock. If the value of oil or common stock changes, the derivative product will also experience a similar movement in its value.

6. Go online and find examples of mutual fund strategies. Why might paying a one-time sales load benefit an investor as compared to paying high annual fees?

**Answer:** There are a multitude of mutual fund strategies involving stock, bonds, tangible property, derivatives, or a combination thereof. Mutual funds may have different fund segments where investors are charged fees in dissimilar ways. Normally, an investor that pays a sales load upfront or at the end will incur fewer annual fees. The low annual fees benefit an investor who holds a mutual fund long term despite the upfront sales load.

7. How do the tax advantages and compound growth in a retirement account shape how the account balance will grow over time?

**Answer:** A retirement account bestows certain tax advantages allowing an investor to retain more money in the account to earn additional income. The reinvestment of this additional income allows amounts to accumulate over time and grow to a much larger sum overall as compared to a nonretirement account that would drain money each year because of taxes.

8. Which retirement plans expect employees to make contributions? Which retirement plans allow account holders to borrow against their current balance?

**Answer:** Employees are responsible for making contributions on their own behalf in relation to an IRA and 401(k). No matching employer contributions will be made if the employee does not contribute to the retirement account first. An employee can also borrow against a qualified plan or 401(k).

9. What personal criteria should an account holder examine when determining how to allocate funds among different investment products?

**Answer:** The risk level of the account holder should be assessed along with future investment goals as part of the allocation decision. The overall risk profile is determined by assessing the account holder’s income potential, time horizon, total account balance, and personal thoughts on risk.

10. Explain the difference between term and permanent life insurance. What categories of permanent life insurance exist?

**Answer:** Permanent life insurance provides a death benefit at any future point in time. A term life insurance policy will end coverage on some future date. Permanent life insurance policies contain a cash-value portion that builds separate from the death benefit and may add to the overall death benefit. Categories of permanent life insurance include whole and universal, which may contain fixed or variable cash-value accounts.
11. What are the five categories of business insurance policies? What types of policies could protect a health care provider who is seriously injured in an automobile accident?

Answer: The five categories include health, disability, business continuity, property and liability, and malpractice. A policyholder that becomes injured may be covered under a health and business continuity plan if the injury prevents working for a short time period. A disability plan may provide coverage if a long-term injury exists that prevents working.

12. Review the revenue and expense assumptions used in this chapter’s example financial plan. How do these differ from the ones listed in Appendix III?

Answer: The example financial plan looks at a health care provider that wants to start a newfound organization. Appendix III involves a health care provider attempting to purchase an existing organization.

CHAPTER 16

1. How could an entrepreneur who struggles with creativity develop an idea further?

Answer: Forming a brainstorming or other support group allows an entrepreneur to generate ideas with help from others. Personal creativity can be enhanced by browsing websites, magazines, and journals along with setting aside time to concentrate alone.

2. What kind of artificial structure could ensure that an entrepreneur remains motivated?

Answer: An entrepreneur should attempt to increase motivation levels by designing incentives and rewards that can only be accessed if metrics or the workload is completed. The workspace should be energetic and organized in a way where the workload cannot be overlooked.

3. List some of the main qualities that an entrepreneur should possess. Do you struggle with displaying any of these qualities? How might you further develop entrepreneurial traits?

Answer: Don’t be afraid to reflect personally on weaknesses and address them proactively with education, a support network, and goals.

4. What are the main categories of a feasibility questionnaire? List a relevant question for each category.

Answer: A feasibility questionnaire can be used to analyze the potential benefits and drawbacks to various business ventures. The questionnaire should cover marketing, financial, and management concepts, which parallel the topics covered by a business plan. See Table 16.2 for the full list of categories.

5. List examples of items that can be identified in advance before launching a new venture. Why should an organization grow in planned stages?

Answer: Equipment, supplies, and documents that will form the external and internal experience for patients and marketing prospects can be identified in advance. Keeping a list of items helps
6. What are the four perspectives of a balanced scorecard? For each perspective, create an example goal, metric, and action step.

Answer: The balanced scorecard divides goals into financial, patient, internal processes, and learning perspectives.

7. Who should an entrepreneur place (or not place) in a support network and how could participants in a support network stay connected?

Answer: A support network should involve professionals in other fields, small business owners, and health care providers. To deal with the stresses of running a clinic, a support network can involve a counselor or psychologist. A family member or friend may be excluded from a support network to prevent relationships from being burdened with negative subjects. Participants of support network can stay connected online using websites (Facebook) or email.

CHAPTER 17

1. Why is it important to refrain from bringing up negative or controversial topics with patients? Under what circumstances do you find yourself talking negatively?

Answer: Speaking negatively about people, gossiping or broaching controversial topics can appear unprofessional and invoke unwanted emotions. Reflect on how you communicate with people and take note of any negativity.

2. Consider the last time you saw a health care provider. What sacrifices did you make as a result of the appointment and did the health care provider recognize those sacrifices? Did the health care provider advocate for any unwanted care and, if so, how did that make you feel?

Answer: Think about costs in terms of time, money, and energy that proved frustrating or unnecessary. Consider visits to a health care provider that did not go well for a particular reason.

3. How might talking about a patient's commuting experience help you understand the patient's daily routine? In what way could personal information about patients influence the health care process?

Answer: Asking patients about their commute can provide information about places where they spend time. Any problems related to the commute can be discovered and addressed. The flow of the conversation can help to understand personalities and thought patterns. Who patients are as a person and their daily lifestyles may influence treatment recommendations, follow-up visits, and other areas of the health care process.

4. What type of issues should a health care provider discuss before, during, and at the end of a new patient visit?

Answer: A health care provider should build a slight amount of rapport during the initial stages of a visit and reference any prior conversation if applicable. The health care process should involve
gaining an understanding of the patient’s health care needs and communicating this understanding back to the patient. Feedback should be gathered about the health care process and any treatment recommendations.

5. Are there any situations where a recommendation for care might be perceived as unwanted or unnecessary?

Answer: A patient can easily perceive a treatment recommendation as unwanted or unnecessary if a resource expenditure proves overwhelming or the patient does not understand the purpose for the resource expenditure. A patient may also have expectations of care that were not properly addressed.

6. Under what circumstances would a long-term treatment plan prove helpful to a patient?

Answer: A long-term treatment plan needs to address a qualified health care concern and not form part of a sales ploy. The patient should understand the purpose of the treatment plan to prevent any unwanted feelings. Assessment points can help clarify if a plan needs to be modified, stopped, or continued.

7. How should an organization communicate with patients about a temporary or permanent conversion of their care?

Answer: Patients should know in advance if their regular health care provider is unavailable and specify who they would like to be seen by in a straightforward, comfortable manner. Communication efforts should begin as soon as possible and highlight any strengths of the alternate health care provider that may oversee their care.

8. How could an organization prevent problems related to scheduling, billing, diagnosing, and treating patients? In each of these four categories, what types of solutions could be implemented if a problem does arise?

Answer: A health care process must properly manage administrative and health care processes to ensure patients have a positive experience. Gathering feedback from patients, employees, and referral sources using various approaches is important to prevent problems and create meaningful solutions. An organization should consider discounting prices, offering a referral, and providing a gift card if patients encounter a problem with their care. Always quote patients the full price of a visit and mention the conditions in which a discount would apply, such as third-party insurance coverage.

9. What are some pros and cons regarding the use of an electronic note-taking system as opposed to a paper system? What steps should an organization take to ensure chart notes are recorded properly and kept safe from unauthorized viewing? Are there any laws that must be upheld relating to patient files?

Answer: Electronic charting systems may take more time to navigate and type out information. A paper chart might be easier to flip through when searching for historical information. An electronic system must contain internal controls to prevent unauthorized access. Computer screens and paper charts should be located in areas where unauthorized viewing would not be possible. A health care organization must uphold patient privacy standards as set forth in HIPAA legislation.
CHAPTER 18

1. What financial tools help an organization determine if it can afford to hire staff members?

   **Answer:** An organization should review a cash budget to ensure it can afford an employee over the long term. Employees and the state labor department will make a fuss if wages are not paid on time.

2. Review the different categories of an employee handbook. Discuss the type of information that each category should contain.

   **Answer:** An employee handbook represents a key legal agreement that details the employment relationship. Each employee should sign a document stating the employee handbook was read. The employee handbook must cover all the major rules and expectations that organization has.

3. Under what circumstances could specific employment laws not apply? Within the United States, what role does the Fair Labor Standards Act play in defining the employment relationship and overtime eligibility?

   **Answer:** Certain employment laws may not apply if an organization employs fewer workers than the threshold prescribed by the particular employment law. Federal and state laws differ so an organization should ask a licensed attorney about what employment laws apply.

4. What are the main steps of an interview? What should occur if a candidate is selected for hire?

   **Answer:** An interview should involve an overview of the clinic, appropriate questions, and a work-related skills assessment. A candidate that is selected for hire should have an opportunity to meet with other organization members. A letter should be sent specifying the general employment terms. A copy of the employment handbook could also be sent alongside.

5. What does the mnemonic BP CRASHED refer to and why should an organization avoid trying to uncover personal information about a candidate?

   **Answer:** The mnemonic references topics covered by employment laws. Asking about such topics or allowing a candidate to speak openly about such topics could break discrimination laws and subject the organization to legal actions.

6. How might an unmanaged office culture disrupt the patient experience or result in a legal dispute?

   **Answer:** Allowing the office culture to remain unmanaged may cause employees to speak negatively about a patient and provide ineffectual care. Improper behavior could result in a patient encountering a negative health event or feeling discriminated against.

7. What types of meetings should an organization hold and what specific topics should be discussed during each one?

   **Answer:** A morning meeting helps orient the patient load and motivate organization members to work hard and arrive to work on time. A monthly staff meeting is meant to discuss organization
goals and strengthen working relationships. Employee performance reviews give feedback about work performance, management competencies, and any unique problem.

8. Why might scheduling a training session in advance make a staff member feel more comfortable than being told directly that a job duty was not performed correctly?

**Answer:** Broaching the subject of poor work performance can be difficult and cause an employee to feel uncomfortable. Training sessions planned in advance that involve job duties that an employee does correctly and incorrectly creates a more comfortable environment train and develop employees.

9. Could an employee’s poor job performance emanate from poor management? How should strong job performance be rewarded?

**Answer:** An employee will perform job duties at the bare minimum and engage in unwanted behaviors and actions if left unmanaged. Employees should be checked on regularly, asked questions, and required to fill out timecards. Strong job performance should be rewarded with increases to pay, benefits, and job control.

10. What is the difference between a qualified and unqualified benefit for tax purposes?

**Answer:** A qualified benefit meets tax law requirements and can be provided to employees on an after-tax basis. An unqualified benefit may be treated as income to the employee and may not be eligible as a tax deduction for the business.

11. What is the difference between an *at will* and *for cause* jurisdiction? What could happen if an organization does not document poor job performance? Why might an organization always want to follow a progressive discipline structure?

**Answer:** Companies operating in an *at will* jurisdiction can terminate employees without warning or reason. A *for cause* jurisdiction requires that a valid, documented reason exist before terminating the employment relationship. Failure to document poor job performance could give the impression that job performance was in fact adequate. The state labor department could require an employer to reinstate an employee who was terminated improperly. A progressive discipline structure ensures that the organization documents poor work performance and provides the employee with an opportunity to correct performance. Employees are an expensive investment and should be provided with an opportunity to improve job performance.

12. When should an organization cease the employment relationship and what persons should be contacted?

**Answer:** An employee engaged in illegal or dangerous behaviors should be sent home. Employees that cannot improve work performance after two fair warnings are given per a progressive discipline structure should also be terminated. An attorney or the state labor department should be contacted to ensure the termination process is legal and appropriate.
CHAPTER 19

1. How long might it take to gather the skills needed to succeed as the chief executive of an organization and under what circumstances can a person develop such skills?

Answer: An entire lifetime can be spent developing skills that will help manage and entrepreneurial venture. A person can begin developing management skills in school or an associate position. Skills can be developed through continuing education events, the Small Business Administration, or local colleges.

2. To what extent should the chief executive of an organization solve problems in a preemptive and holistic manner?

Answer: Waiting for problems to present themselves may cause them to expand into major concerns. Gathering feedback, making personal observations, and direct communication can unearth problems and allow the chief executive to remedy the situation with any parties impacted.

3. In what ways could organization members, especially the chief executive, gather information needed to make executive decisions?

Answer: Proactive communication will play a key role in managing an organization, not just in terms of resolving problems, but creating a positive patient and staff experience. Information can also be gathered from reports generated off the accounting system including the financial statements. Staff meetings and ad hoc reports help to gather information from the employees’ perspective.

4. Cite examples of transitions that an organization might undergo. What actions could make these transitions proceed smoothly?

Answer: An organization needs to plan for any potential employee turnover by registering in advance with an employment agency, cross-training employees, and put together a contingency plan to specify how to rework job duties. An information technology conversion related to a new program or hardware system could result in the loss of data if information is not reviewed before and after. An organization needs to communicate directly with patients if their care will be taken over by an alternate health care provider.

5. How can an organization ensure that resources are used efficiently and remain protected? What are the main resources that an organization should closely manage?

Answer: Insurance products provide security against any financial hardship caused by an unforeseeable event. Employees should be managed properly to prevent waste and fraud. Patients will expect the organization’s product inventory to be available and can become frustrated or disappointed by inventory mismanagement. Money spent in the form of equity, assets, or expenses should lead to the highest production of revenue possible.

6. Review the four types of internal control measures that a computer program should contain. What could occur if such quality control measures are absent from part of a program?
**Answer:** A software program should contain conditional formatting that limits how data is entered. An administrator needs to segregate job duties to control a user's ability to access or modify data. Software should maintain a log in case unauthorized actions are taken. These control measures protect the integrity of information in the system and prevent any legal disputes or negative events caused by unauthorized actions. The computer system should be backed up daily to ensure information is never lost indefinitely.

**7. How should internal processes be structured to ensure the following?**
   a. Detailed chart notes are compiled for every patient?
   b. Charges are correctly posted to patient accounts?
   c. Patients are billed the correct amounts?
   d. Payments are correctly posted to patient accounts?

**Answer:** A sign-in sheet serves as a first-line defense to ensure chart notes are compiled on all patients seen within a day, including walk-ins. The chart notes are then used to post billable charges to patient accounts. Review of a journal entry can confirm that charges were posted correctly. Internal controls must prevent billable charges from being modified by an unauthorized user. Charges billed to patients either in person or through the mail must contain the correct amounts bearing in mind third-party coverage or applicable discounts. Once payments arrive, compiling a cash log and journal entry will help ensure the organization does not experience fraud and payments are posted to the correct accounts.

**CHAPTER 20**

1. **What is the role of a workstation computer versus a network server? Why is it usually unnecessary to individually purchase network software?**

**Answer:** A network server may house all the main software programs that organization members use. This allows workstation computers that organization members interact with directly to be easily modified or replaced. Software used to control the overall network usually comes with modern operating systems already.

2. **How might an organization form an ergonomic workstation to reduce the risk of an employee filing a worker’s compensation claim for on-the-job injuries?**

**Answer:** An organization must provide employees with ergonomic equipment if requested. A legal dispute could arise if the work environment is not structured in an ergonomic manner. An ergonomic mouse and keyboard pad are shaped in a way that reduces hand, wrist, and arm strain. Overhead or workstation lighting could involve full-spectrum bulbs to reduce eyestrain. The position of equipment and documents should take into account a person’s physical body and also maneuverability around the workspace.

3. **How can a network administrator protect a computer system against unauthorized activities?**
Answer: An administrator should require users to enter a password to log onto a computer. The computer can be locked if a user steps away for a brief moment. Internal controls can segregate how different users interact with particular software. A partitioned file structure allows users access to only their specific files.

4. What is the importance of removing games from a computer system and blocking websites?

Answer: Employees will waste a tremendous amount of time if allowed to play games and surf the Internet. Any unnecessary files and programs should be removed from the computer system. A maximum number of websites should be blocked to prevent employee waste and the unintended downloading of a virus that could potentially allow a hacker access to the computer system.

5. What is the purpose of a firewall and how can an authorized remote user bypass the firewall?

Answer: A firewall helps to prevent external parties from accessing a computer system over the Internet. An administrator can grant external access to the computer system by specifying in the network software the specific authorized external users.

6. What constitutes protected health information (PHI)? Under what circumstances should an organization refrain from sending PHI electronically?

Answer: HIPAA legislation defines protected health information. An organization must refrain from sending PHI electronically unless the party receiving PHI has encryption protection that meets HIPAA requirements. An organization should have documentation showing that the PHI will remain protected. A patient that asks for PHI to be sent electronically should sign a waiver noting that any encryption protection may not last and the PHI could become compromised.

7. When does it become important to sign a contract with an external party to safeguard PHI?

Answer: Signed documentation must be requested if there is a reasonable expectation that an independent company performing services for a health care organization will interact with PHI. The documentation should specify that the external party has appropriate safeguards in place and internal controls ensure that the safeguards will be followed.

8. Why have organizations started to store backup files off-site with third-party vendors?

Answer: HIPAA legislation requires that data remain secure from any potential disaster and data can be restored once the disaster ends. Third-party vendors that maintain compliance with HIPAA regulations provide assurance that backup files stored off-site will not be damaged or lost in case of a disaster.

9. What kind of analysis can be conducted to determine the value of computer hardware or software? List four to five costs related to a practice management or EHR program.

Answer: A cost-benefit analysis involving accounting information can help determine the overall consequence of using a particular computer system. A list of costs is included in Table 20.2.
10. If an organization does not use a practice management or EHR program, how might administrative processes be conducted?

Answer: A small or cash-basis health care organization will often use a paper or electronic calendar to maintain the patient schedule. Patient charts may be tracked using Quickbooks or Microsoft Excel unless a paper system is followed. Patient charts and marketing campaigns are often maintained using paper documents.

Contact info@remedybooks.com with any other questions.