Budget Project Part 1

DIFFERENT BUDGETS FOR DIFFERENT PURPOSES

1. Explain the key difference between the operating budget and the capital budget.
2. Define full-time equivalents (FTEs).
3. The medical records office of a healthcare facility is budgeted with four full-time positions and 1.2 FTE part-time positions. How many hours per year can the medical records supervisor use part-time employees?
4. A hospital has 100 beds in 50 semiprivate rooms. Average occupancy over the past several years has been 70%. Determine the number of projected encounters using the 70% occupancy factor. Determine the number of weighted encounters under the assumption that the assigned weight is 4.0.
5. Using the weighted encounters in question 4, determine the revenue budget for the hospital using the assumptions that the value per weighted encounter is $100 and that all patients have employment-based healthcare insurance with a discount factor of 40%.

THE CASH BUDGET

1. What is the purpose of the cash budget?
2. A Houston Medical facility had budgeted negative cash flow for the month of March of $30,000. In the full year cash budget, February had budgeted negative cash flow of $47,500 and April was negative $25,000. January, including insurance payments from care provided near the end of the prior year, was budgeted at break-even cash flow. All of the other months for the year were budgeted with positive cash flow. At the end of the calendar year on December 31, what is the minimum level of cash reserves necessary to pay operating costs of the facility without using borrowing?

BUDGET PHILOSOPHIES

1. Compare and contrast top-down (authoritarian) budgeting and bottom-up (participatory) budgeting, showing the strengths and weaknesses of each.
2. Explain incremental budgeting and zero-base budgeting. What are the advantages and disadvantages of each?

BALANCING THE BUDGET

1. Because of crop failures in Asia, American farm equipment manufacturers are gearing up production to meet expected increased demand. The manufacturing facility in Houston, Texas is adding a second shift and hiring new workers. Houston Community Hospital operates on a calendar-year budget. By midyear, the hospital is seeing a substantial increase in patient visits, and the operating units in the hospital are experiencing needs for higher use of overtime and part-time employees, exceeding budgeted funds. You are the budget manager for Houston Community Hospital. What budget amendments would you recommend to both hospital management and the board of directors?

2. The largest employer in Dallas, Texas builds travel trailers and has been battered by the current recession, reducing employment to meet the loss in sales volume. A number of families have moved away to seek employment elsewhere. Nurses Hospital in Dallas, Texas has experienced reductions in patient visits, and the hospital's budget manager is projecting that the hospital will not meet revenue or cash budget. You are the administrator for Nurses Hospital. You meet with the budget manager to formulate a plan of action to take to the board of directors. What budget amendments will you consider to meet the loss in revenues?

BUDGETING FOR SMALLER MEDICAL FACILITIES

1. Explain the steps involved in developing an effective budget for a smaller medical facility.

2. What is the purpose of a monthly review of actual experience against the annual budget of the facility?

Budget Project Part 2

(5 points True or False)

1. TRUE or FALSE (circle correct answer): The budget is management's plan, expressed in dollars, for a future period of time.

2. TRUE or FALSE: Two employees work 30 hours per week each. This is equal to 1 full-time equivalent (FTE) position.

(5 points Multiple Choice: circle the letter of the correct answer.)

3. Sue Sally Jane, the hospital's facility manager, tells a staff member: "I'm sorry, there is no money for that in the budget." She is referring to the hospital's:

A. Operating budget
B. Authorized personnel budget
C. Capital budget
D. Statistical budget
E. Revenue budget
F. Cash budget

4. The hospital's medical director, in the annual budget meeting, states that the hospital needs to plan on purchasing an open MRI by 2020. That expenditure would appear in the hospital's:

A. Operating budget
B. Authorized personnel budget
C. Capital budget
D. Statistical budget
E. Revenue budget
F. Cash budget

5. The nursing home administrator directs the finance manager to prepare a forecast of facility occupancy for the upcoming fiscal year based on historical trends. The completed document will be a:

A. Operating budget

B. Authorized personnel budget

C. Capital budget

D. Statistical budget

E. Revenue budget

F. Cash budget

6. John Johnson owns and operates a pharmacy in a small town in Laredo, Texas. Revenues are strong in the winter months from the annual influx of "snowbirds" and lower during the summer months. He wants to make sure the business has sufficient reserves to cover the slower summer months and will prepare a:

A. Operating budget

B. Authorized personnel budget

C. Capital budget

D. Statistical budget

E. Revenue budget

F. Cash budget

7. The medical facility's top management decides on the budget for the following year and presents the completed budget to unit managers to follow. This budgeting style is:

A. Bottom-up budgeting

B. Top-down budgeting

C. Incremental budgeting

D. Zero-base budgeting

8. A unit manager in a hospital is told that the budget for next year will be 3% higher to account for inflation. This budgeting style is:

A. Bottom-up budgeting

B. Top-down budgeting

C. Incremental budgeting

D. Zero-base budgeting

9. **TRUE or FALSE:** The annual operating budget includes both the annual revenue budget and the annual expenditure budget.

10. **TRUE or FALSE:** A budget amendment is used only to add additional financial resources to a unit's budget.

(10 points each)

11. Define the term chart of accounts.

12. What is break-even analysis?

13. All medical facilities have functions that are required by the organization but do not bring in revenues. Commonly, budgets of medical facilities will charge these costs to revenue-producing departments. What are two examples of expenses that may be included in these allocated costs?

(20 points)

14. You have just been hired as practice manager for a single-physician family practice. The practice has never had a budget, and your new boss asks that you prepare one for the upcoming year. What steps do you take to prepare and manage a budget for the practice?