Solutions for Accounting Fundamentals for Health Care Management 3rd Edition by Finkler

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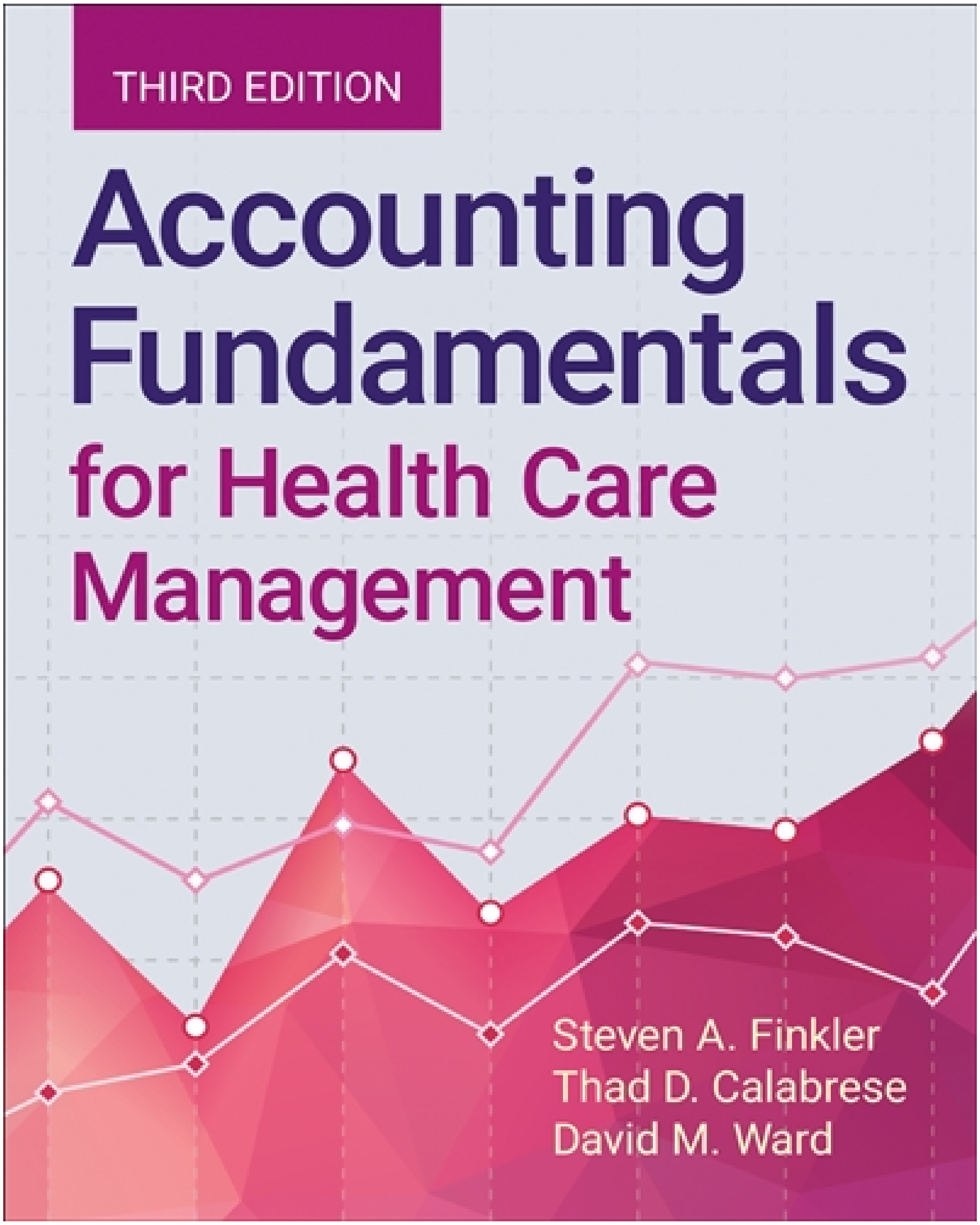

Solutions

Chapter 1: Introduction to Health Care Accounting And Financial Management

Test Your Knowledge

1) Explain the primary functions of finance.

Ans: Finance typically refers to the decisions surrounding the acquisition or disposition of an organization's resources. Finance focuses on questions such as: How should we pay for the new building? How should we invest the cash gifts given to us by our donors?

2) Explain the primary functions of accounting.

Ans: Accounting is a formal system of providing an organization's financial information. Accounting focuses on questions such as: How much did we spend last year? How much should we budget for the next year? Financial accounting is focused on reporting what has already taken place. It is the financial history of the organization laid out in the form of financial statements. Managerial accounting is focused on generating the financial information needed to improve current decision making within the organization. Managerial accounting is prospective in nature and financial accounting is retrospective.

3) What are the primary goals of financial management for not-for-profit health care organizations?

Ans: Not-for-profit health care organizations should strive to improve the health and well-being of the community, provide the highest quality health care services, and minimize morbidity and mortality, and generate some profits to ensure the financial well-being of organization, among others.

4) What are the uses of profits for health care organizations?

Ans: Health care organizations need profits to invest in the expansion of services, subsidize patients unable to pay for services, acquire new technologies, build a rainy day fund, replace existing buildings and equipment, and simply keep pace with inflationary changes.

5) Explain the relationship between financial risk and financial return.

Ans: The greater the risk an organization must incur, the greater the anticipated profit or return on the money the organization demands.

6) Why doesn't every person or organization invest all available funds into the stock market, which has the highest expected return?

Ans: People and organizations have differing risk tolerances. Individuals and organizations evaluate risks and rewards differently.

7) What do accountants mean when they say short-term? Long-term?

Ans: The short-term (near-term or current) typically refers to 1 year or less. A short-term obligation is one that must be paid within 1 year. Long-term is greater than one year.

8) Explain how an organization liquidity and solvency are related.

Ans: The relationship between liquidity and solvency is similar to risk and return. An organization that is highly liquid (has significantly more short-term resources than short-term obligations) is not able to invest as many resources in higher yielding long-term opportunities. This may put long-term solvency at risk. An organization that has invested too many resources in higher yielding long-term opportunities may not have enough liquidity to meet current obligations and therefore may be at risk for bankruptcy. Good financial management requires a balance between liquidity and solvency.