

Financial Management

1. Which of the following is a financial expression of the practice's plan for the next year?

- A. Operating budget.
- B. Income statement.
- C. Statement of cash flow.
- D. Balance sheet.

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Answer: A

Operating budget.

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2. Zero based budgeting is based on the premise that every item in the budget must be justified for which of the following?

- A. Increases greater than zero for the budget year.
- B. Increases less than zero from the prior year.
- C. Items greater than zero for the budget year.
- D. Increases greater than zero from the prior year.

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Answer: C

Items greater than zero for the budget year.

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3. How do semi-variable costs typically increase?

- A. Independent of volume.
- B. Directly proportionate to providers.
- C. In a "stepwise" fashion.
- D. Directly proportionate to volume.

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Answer: C

In a "stepwise" fashion.

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4. Which of the following stipulations affects the flexibility of a loan document?

- A. Late charges.
- B. Amortization schedule.
- C. Prepayment penalty.
- D. Interest rate.

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Answer: C

Prepayment penalty.

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5. What is the purpose of Generally Accepted Auditing Standards?

- A. To gauge the quality of the audited organization's financial statements.
- B. To gauge the quality of the auditor's performance.
- C. To gauge the quality of the audited organization's operations.
- D. To gauge the quality of the audited organization's compliance with regulations.

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Answer: B

To gauge the quality of the auditor's performance.

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6. Which of the following is typically NOT included in an engagement letter with an accounting firm?

- A. The type of opinion to be provided as a result of an audit.
- B. Delineation of services the accounting firm will perform.
- C. Work products the firm will deliver.
- D. How the accounting firm will charge for its services.

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Answer: A

The type of opinion to be provided as a result of an audit.

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7. Good accounts receivable management includes which of the following?

- A. Inclusion of pre-payments in analysis efforts.
- B. Unsubstantiated write-offs.
- C. Willingness to bill third party payers.
- D. Specific and documented follow-up activities.

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Answer: D

Specific and documented follow-up activities.

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8. Using relative value units (RVUs) to determine procedure costs is often beneficial. Which of the following is NOT a benefit of using RVUs?
- A. Assign detailed costs and resources used in procedures.
 - B. Determine profit and loss per procedure.
 - C. Determine cost performance regardless of volume and procedure mix changes.
 - D. Isolate changes in costs due to changes in procedure mix.

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Answer: C

Determine cost performance regardless of volume and procedure mix changes.

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9. When are discounts for self-pay patients allowed?

- A. If the patient can prove financial hardship.
- B. If the patient is billed once for the full charge.
- C. If the patient has not applied for federal assistance.
- D. If the patient has a high deductible.

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Answer: A

If the patient can prove financial hardship.

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10. In modified cash accounting, the operating margin is calculated by using which of the following ratios?

- A. Total debt divided by total assets.
- B. Net income divided by total assets.
- C. Income derived from operations divided by revenues.
- D. Net income divided by revenues.

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Answer: C

Income derived from operations divided by revenues.

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11. Which defines short-term investments?

- A. A financial asset that matures in one year or less.
- B. A financial liability that has no maturity.
- C. A financial asset that matures in five years or less.
- D. A financial asset that matures in three years or less.

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Answer: A

A financial asset that matures in one year or less.

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12. Which of the following best defines how gross profit margin is calculated?

- A. Total revenue less the cost of goods sold.
- B. Total revenue less employee salaries.
- C. Net revenue less forecasted losses.
- D. Net revenue less balance of bank account.

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Answer: A

Total revenue less the cost of goods sold.

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13. Which tax is related to non-payroll disbursements?

- A. Medicare tax.
- B. Use tax.
- C. FICA tax.
- D. Unemployment tax.

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Answer: B

Use tax.

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14. Which of the following payroll deductions does NOT increase the amount of an employer's payroll expense beyond gross wages?

- A. Federal Unemployment Tax
- B. Social Security Tax.
- C. State employment taxes.
- D. Employee withholding amount.

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Answer: D

Employee withholding amount.

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15. What calculation is needed to evaluate a medical practice's fee schedule with that of a payer using the resource based relative value scale?

- A. Relative value units.
- B. Payer conversion factor.
- C. Work value.
- D. Geographic practice cost indices.

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Answer: B

Payer conversion factor.

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16. When a managed care plan combines a health maintenance organization (HMO) product with a point-of-service option, what is the major risk in accepting capitation?

- A. Higher than expected costs for emergency room services.
- B. Stop-loss levels that is set too high.
- C. The cost of out-of-network services.
- D. Over utilization of services by patients.

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Answer: D

Over utilization of services by patients.

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17. Which of the following cash classifications is NOT reflected in the cash flow statement?

- A. Cash used by financing.
- B. Cash generated by profit sharing plan investments.
- C. Cash generated by practice investments.
- D. Cash used by operations.

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Answer: B

Cash generated by profit sharing plan investments.

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18. What rule must always be followed to ensure that proper internal cash controls are maintained?

- A. All cash disbursement checks must be pre-numbered.
- B. All support staff must be bonded.
- C. All cash receipts must be deposited weekly.
- D. All cash balances must be verified monthly.

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Answer: A

All cash disbursement checks must be pre-numbered.

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19. Which of the following is NOT an internal control measure?

- A. Requiring dual signatures on checks.
- B. Opening and reviewing bank statements.
- C. The use of purchase orders.
- D. The use of group purchasing consortiums

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Answer: D

The use of group purchasing consortiums

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20. Which of the following is NOT considered by a banker when evaluating a practice's credit worthiness?

- A. Ability to repay the debt from excess cash flow.
- B. Available collateral.
- C. The potential interest rate on the loan.
- D. The organization's financial statements.

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Answer: C

The determination of potential interest rates is not part of the credit worthiness evaluation. The cost of borrowing (the interest rate) is established at the time the loan is made and generally relates to the current cost of money based on the term of the loan and other current market conditions.

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21. What is shareholder's equity?

- A. The amount that shareholders have contributed to the medical practice.
- B. The amount that the practice can be sold for, after all debts are paid.
- C. The difference between assets and liabilities on the balance sheet.
- D. The difference between revenues and expenses on the income statement.

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Answer: C

Depending on the legal structure of an organization, owner's equity may include contributed capital, undistributed earnings, different classes of stock, donated capital, or retained earnings.

In general, stockholder's equity represents the difference between assets and liabilities on the balance sheet.

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22. What is a major benefit of budgets?

- A. They communicate actual financial performance to outside stakeholders.
- B. They require managers to plan in an organized fashion.
- C. They provide long-term estimates of practice revenue and expense.
- D. They document actual revenue and expenses over time.

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Answer: B

The major benefit of budgets is that they require managers to plan in an organized and concentrated way. Budgets are short-range targets expressed in financial terms. The process demands that the medical group set aside a specific time each year to plan and that the plans are built on already-established goals and objectives.

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23. Which of the following is typically NOT considered as part of a medical practice's negotiating approach during the managed care contracting process?

- A. Internal cash management controls.
- B. The practice's organizational structure.
- C. The practice's strategic goals.
- D. The surrounding marketplace for healthcare services.

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Answer: A

Internal cash controls are a critical component of effective accounting practices but are not specifically related to contract negotiation. For contract negotiation process, everything starts with strategy. The contracting strategy will be influenced by the dynamics of the practice plan's organizational structure and business goals as well as the surrounding market place. The types of contracts that a group will consider will be as diverse as the dynamics of the group itself. Strategies might focus on specific goals of the group, for instance: primary care growths, network building, affiliated hospital growth, plan partnership/ownership. It is also important to note that in the competitive environment some strategies are maintenance strategies and not growth strategies; others simply create a barrier to entry. Regardless of the spec strategy, it is important to educate the practice leadership of the specific strategy and to measure performance against that strategy.

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24. What entity is legally responsible for ensuring that employee payroll taxes are paid?

- A. The employee.
- B. The federal internal revenue service.
- C. The employer.
- D. The state department of labor.

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Answer: C

By law, the employer is ultimately responsible for ensuring that payroll has been processed accurately and that taxes have been filed appropriately.

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Financial Management Essay Questions

You are the administrator of a medical practice that wishes to invest in several million dollars' worth of equipment. Several physician partners have refused to accept the personal financial liability necessary for financing the new equipment.

Describe your plan of action.

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Financial Management Essay Questions

You are the new administrator of a 15-physician cardiology practice that has recently undergone a practice evaluation by an outside CPA firm. The practice evaluation shows significant problems with accounts receivable (AIR) due to unworked credit balances, delays in posting charges due to operational items and procedural issues regarding tracking of fee slips.

Discuss how you would handle this situation.

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