

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 for the budget 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. 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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6. 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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7. 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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8. 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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9. 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. All cash receipts must be deposited weekly.
- 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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10. Good accounts receivable management includes which of the following?

- A. Inclusion of pre-payment 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: A

Inclusion of pre-payment in analysis efforts.

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11. 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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12. 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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13. 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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14. 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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15. 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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16. 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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17. Which of the following 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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18. The ability to repay a loan, or service the debt, depends on the organization's available cash after paying all reasonable expenses and providing adequate compensation to recruit and retain physicians. Which of the following can a medical practice do to convince a banker that physicians will support the cost of the additional debt service on a loan?

- A. Provide physician salary information showing that salaries could be cut if necessary to support the debt service.
- B. Secure a "borrowing resolution" from the practice's board of directors.
- C. Personally guarantee payment for the loan.
- D. Increase accounts receivable to demonstrate that future revenue will be available.

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Answer: B

Secure a "borrowing resolution" from the practice's board of directors.

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19. Which of these practice assets is the most attractive collateral from a banker's perspective?

- A. Accounts Receivable
- B. Medical equipment and supplies.
- C. Medical office building.
- D. Liquid assets.

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Answer: D

Liquid assets.

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20. 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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21. 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 service.
- B. Stop-loss levels that are 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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22. 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 potential interest rate on the loan.

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23. 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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Financial Management

Answer: C

The difference between assets and liabilities on the balance sheet.

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24. 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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Financial Management

Answer: B

They require managers to plan in an organized fashion.

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25. 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 management controls.

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26. 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

The employer.

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Financial Management Essay Questions

1. 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

2. You are the 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. (A/R) 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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