

Variance analysis case study

Finance



Finance and accounting Hospital's original profit forecast = original revenue forecast - original expense forecast. Actual IP revenue (FY 11YTD) is \$24220949

Actual IP expense (FY 11YTD) is 25256062

Profit = actual IP revenue - actual expense

Profit is (24220949 - 25256062) -\$1035113

Half way through the fiscal year revised projection for FY 11 profit is calculated as follows:

The total inpatient product line Projected IP revenue for FY11 is \$50155710

The total expense FY11 Budget (FY 10+6% inflation) = 48069860

The original profit forecasted is \$(50155710 - 48069860) = \$2085850

2. Inpatient service lines that were over budgeted were:

CIRC (diseases and disorders of the circulatory system) over stated by \$1305487, DIGEST (diseases and disorders of the digestive system) over budgeted by 1695702, OB (pregnancy, childbirth, and the puerperium) over budgeted by 2361806, OTHER (unknown) over stated by 6569284 and RESP (diseases and disorders of the respiratory system) overstated by \$2300061.

After accounting for work load increased, the following product lines were over budgeted: DGEST over budget increased to \$2381015, NEWBORN over budget increased to 1285906, OB budget increased to 3244223, and OTHER of which the budget increased to 7835546 (Radhakrishnan, 2007).

3. The actions taken if I were to offer a fee-for service hospital I would focus OB (pregnancy, childbirth), OTHER (unknown) and RESP (diseases and disorders of the respiratory system)

Educate the financial analysts and managers about the relationship between revenue, activities and expense in product line such as OTHER to avoid over
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budgeting the funds which can lead to poor financial health.

A solid financial management plan should be enforced. This includes strategic planning in expense and revenue forecasting, reporting and analyzing the trending of the budgets for a sound forecast.

The people to be held accountable to provide ideas based on their performance are practitioners who should avoid billing services not performed, falsifying a diagnosis, billing duplicate for a one service performed and misrepresentation procedures.

The suppliers or providers who supply the hospital with medical products should be interviewed to provide information regarding the transactions (Levy & Sarnat, 2004).

Accountants who establish relationship with banking or other financial institution partner for line of credit for working capital in advance of implementation date to provide ideas concerning finance.

4. Actions to be taken at the mid- year point in case of a capitated hospital. Allocation of more funds in the hospital budget to pay groups of physicians' amount that will be enrolled and assigned to them, per period of time on whether a person seeks care or not.

Efficiently and sufficiently utilization of financial sources as it is subject to amount of remuneration of providers to care for health maintenance organization.

Reinsurance: the main goal here is to offload risk and reward to the reinsurer for stable operating results. This is because the providers who cannot afford reinsurance that might lead to deplete in inadequate capitation payments must be paid by other providers.

Incentives: physicians to be given incentive for the consideration of cost of
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treatment because under pure capitation, fee per patient is predetermined regardless of the degree of infirmity. This gives physicians an incentive to avoid costly patients.

References

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Levy, H., & Sarnat, M. (2004). *Capital investment and financial decisions* (2nd ed.). New York, NY: Prentice-Hall.

Radhakrishnan, S. (2007). *Corporate budgeting: Understanding the budgeting process with financial forecasting and free cash flow calculation* (3rd ed.). Kuala Lumpur: Golden Books Centre.