Healthcare: asset and short-term working capital

Running Head: Application 1 Application 3 Lewis Kelly Devry University HSM 340 Walter Dunajick 12/2/2011 1. What are four general phases of the working capital cycle? 1. Purchasing of resources- relates to the acquisition of supplies and labor, such as the level of inventory necessary to maintain realistic production schedules and the staff required to ensure adequate provision of services 2. Production/sale of service-virtually the same in the healthcare industry; there is no inventory of products or services 3.

Billing- represents the interval between the release or discharge of a patient and the generation of a bill 4. Collection-represents the interval between the generation of a bill and the actual collection of the cash from the patient or the patient’s third-party payer 2. What are the three primary sources of short-term funds? 1. The single-payment loan is the simplest credit arrangement and is usually given for a specific purpose, such as the purchase of inventory. 2.

A line of credit is an agreement that permits a firm to borrow up to a specified limit during a defined loan period. 3. A revolving credit is similar to a line of credit except that it is usually for a period longer than 1 year. Revolving credit agreements may be in effect for 2 to 3 years. 3. An organization's short-term investment options for idle cash include what four areas? List and provide their characteristics. 1. Short-term working capital needs- This represents less than 1 month of cash transactions, and standards do not vary much across different industry sectors.

It is safe to assume that most healthcare firms should carry approximately 20 days of expected cash transactions at any point in time to meet normal short-term working capital needs for cash. 2. Capital investment needs-The position is very different from that of taxable firms, whose access to capital for both replacement and new capital assets can and should be directed back to equity investors. Two factors you need to know Percentage of debt financing to be used and projected future levels of capital expenditures 3.

Contingencies- are unexpected demands for cash flow. Values for under-funded pension or professional liability claims should be considered contingency funds. Payment of these liabilities requires funding at some future date. This investment is over and above short-term working capital needs. 4. Supplement operating earnings- The purpose of these funds is to provide a dependable flow of investment earnings that can be used to supplement expected weaknesses in operating earnings. 4. Discuss the term float.

Float is defined as the difference between the bank balance and the checkbook balance. It also may be a questionable practice, depending on applicable state laws. With the advent of direct deposit for most employees, float is no longer a possibility. This method may delay check clearing and create a day or two of “ float References Cleverley, W. O. , Song, P. H. , ; Cleverley, J. O. (2011). Essentials of health care finance (7th ed.). Sudbury, MA: Jones ; Bartlett Learning.