



## *JWI 533: Saving Money, Saving Lives*

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### Assignment 2

#### **Leveraging Flexible Budgeting to Manage Revenue Cycles**

**Due: Sunday, Midnight of Week 6 (20% of Course Grade)**

#### **Background**

The financial well-being of Healthcare providers is highly dependent on building and managing operating budgets that clearly identify the relationship between fixed and variable costs, and which can accommodate variances in patient load and billing. Over the last several weeks we have examined how costs are categorized and charged, and we have studied the relationship between “money out” (expenses) and “money in” (revenue). As we have seen, managing revenue cycles is critical in ensuring the financial sustainability of Healthcare organizations. This assignment presents an opportunity to explore the importance of having a well-designed operating budget that can accommodate variances in operating expenses and minimize revenue-cycle risks.

#### **Instructions**

You have been asked by your supervisor to analyze your division's past financial performance and create a new budget that minimizes revenue-cycle risks through the application of flexible budgeting techniques. The objective is to allow the organization to remain profitable under as wide a range of scenarios as possible, without unduly compromising services.

Previous budgets have been “static” in assigning costs, and have been inaccurate predictors of actual performance. This has led to difficulties in managing the revenue cycle. There have been periods when the organization appears to be beating expectations and periods where it is underperforming.

Your professor will be present you with a scenario outlining revenues and expenses over a fixed period of time. This scenario will include a combination of fixed and variable expenses as well as information on patient loads.

To complete this assignment:

1. Review the current budget provided by your professor, and answer the following questions:
  - a. How did the organization perform on an annual basis?
  - b. When comparing the static budget versus actual results, which line items in the income statement are Favorable (F) or Unfavorable (U)?
  - c. What are the per-unit costs and contribution margins?
  - d. Which line items presented the greatest variances?

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2. Redraft the current budget in the provided in the template using flexible budgeting techniques to better accommodate variances in patient loads and create a budget that is a more accurate predictor of actual performance. After redrafting the budget, address the following:
  - a. Identify which line items are now Favorable (F) or Unfavorable (U).
  - b. What *should have been* the target operating income?
  - c. Which line items should be further explored for inefficiencies?
  - d. For the line items identified in (c), makes recommendations for change.
  
3. Identify key profitability loads
  - a. Using budgeted data, how many patients and revenue dollars would the health system need to break even?
  - b. Using budgeted data, how many patients and revenue dollars would be required to achieve a target profit of \$100,000?
  
4. Summarize your argument for why this model is the most appropriate type for operational budgeting for your organization and explain the operational changes that would need to be implemented to use flexible budgets if the organization is used to working with static budgets.

### **Submission Requirements**

Your assignment will be submitted in Word and Excel.

- In no more than 2 pages in Word, present your responses to items. Your written work should be succinct and direct.
  
- In Excel, you will perform the necessary calculations to answer the questions in item 2. This will allow you to present a flexible budgeting illustration that demonstrates where the true variances lie within your Income Statement line items based on the flexible budget framework.



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**RUBRIC: Assignment 2**

CRITERIA	Unsatisfactory	Low Pass	Pass	High Pass	Honors
1. Budget review and answers to the 4 questions  <b>Weight: 25%</b>	Provided correct answers to 1 or fewer of the 4 questions.	Correctly answered 2 questions.	Correctly answered 3 questions.	Correctly answered 4 questions.	Correctly answered 4 questions plus provided clear and detailed comments on the variances and their impact.
2. Budget re-draft and answers to the 4 questions  <b>Weight: 30%</b>	Did not complete budget using flexible budgeting techniques; answered 1 or few questions correctly.	Re-drafted budget using flexible budgeting techniques; answered 2 questions correctly and/or with unclear or incomplete recommendations for change.	Re-drafted budget using flexible budgeting techniques; answered 3 questions correctly and/or with unclear or incomplete recommendations for change.	Re-drafted budget using flexible budgeting techniques; answered all 4 questions correctly but with unclear or incomplete recommendations for change.	Re-drafted budget using flexible budgeting techniques; answered all 4 questions correctly plus clear and compelling recommendations for change.
3. Identify key profitability loads  <b>Weight: 10%</b>	Did not answer the questions or answer provided was off topic or unclear.	N/A.	Answered 1 question correctly.	N/A.	Answered 2 questions correctly.
4. Argument for applicability of flexible budgeting model  <b>Weight: 25%</b>	Did not answer the question or answer provided was off topic or unclear.	Weak or overly general argument with little substance on rationale for use of flexible budgeting and process changes needed to implement.	Basic argument on rationale for use of flexible budgeting with some explanation of process changes needed to implement.	Well-reasoned argument on rationale for use of flexible budgeting with good explanation of process changes needed to implement.	Exemplary presentation of argument on rationale for use of flexible budgeting with detailed and well-thought-out explanation of process changes needed to implement.
5. Clarity, logic, writing mechanics, and formatting.  <b>Weight: 10%</b>	Multiple mechanical errors; much of the text is difficult to understand or the text does not flow; and fails to follow formatting instructions.	Several mechanical errors; text does not flow; the discussion fails to justify conclusions and assertions; or fails to follow formatting instructions.	A few mechanical errors; text flows but lacks conciseness or clarity; assertions and conclusions are justified and well explained; follows formatting instructions.	Minor mechanical errors and text flows well; clearly explains the recommendation in a logical and convincing manner; follows the formatting instructions well.	No mechanical errors; text flows well; exemplarily explanation of recommendation in a coherent manner; fully follows all formatting instructions.

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