

chapter.)

17.6 Examine the industry average ratios given in problems 17.4 and 17.5. Explain why the ratios are different between the managed care and nursing home industries.

17.7 Recent financial statements for The Heart Hospital are provided below:

<u>The Heart Hospital, Balance Sheet,</u> <u>September 30, 2015 (in thousands)</u>	
Current assets:	
Cash	\$14,202
Accounts receivable, net	5,918
Medical supplies inventory	1,211
Prepaid expenses and other current assets	<u>1,429</u>
Total current assets	<u>\$22,760</u>
Property, plant, and equipment, net	\$33,769
Other assets	<u>901</u>
Total assets	<u>\$57,430</u>
Current liabilities:	
Accounts payable	\$ 1,910
Accrued compensation and benefits	2,543
Other accrued liabilities	1,843
Current portion of long-term debt	<u>2,064</u>
Total current liabilities	<u>\$ 8,360</u>
Long-term debt	<u>21,640</u>
Total liabilities	<u>\$30,000</u>
Owners' equity	<u>\$27,430</u>
Total liabilities and owners' equity	<u>\$57,430</u>

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The Heart Hospital, Statement of Operations,
Year Ended September 30, 2015 (in thousands)

Patient service revenue net of discounts and allowances	\$66,962
Provision for bad debt	(2,457)
Net patient service revenue	<u>\$64,505</u>
Operating expenses:	
Personnel expense	\$21,707
Medical supplies expense	15,047
Other operating expenses	9,721
Depreciation expense	<u>2,625</u>
Total operating expenses	<u>\$49,100</u>
Income from operations	<u>\$15,405</u>
Other income (expenses):	
Interest expense	(\$ 1,322)
Interest and other income, net	<u>159</u>
Total other income (expenses), net	<u>(\$ 1,163)</u>
Net income	<u><u>\$14,242</u></u>

- * a. Perform a Du Pont analysis on The Heart Hospital. Assume that the industry average ratios are as follows:

Total margin	15.0%
Total asset turnover	1.5
Equity multiplier	1.67
Return on equity (ROE)	37.6%

- * b. Calculate and interpret the following ratios for The Heart Hospital:

	Industry Average
Return on assets (ROA)	22.5%
Current ratio	2.0
Days cash on hand	85 days
Average collection period	20 days
Debt ratio	40%
Debt-to-equity ratio	0.67
Times interest earned (TIE) ratio	5.0
Fixed asset turnover ratio	1.4