

## Case 13.3: North Side Hospital

*Key concept: Preparing a three-month cash forecast (budget)*

**T**o make sure sufficient cash is on hand to meet monthly operational needs, North Side Hospital forecasts its monthly cash flows and short-term financing needs.

You have been asked to prepare a cash forecast (budget) for the months of January, February, and March of 2016 using the data provided below:

- Patient revenues (all revenues are initially recorded as a receivable) and expenses forecasted for the first three months of 2016 are as follows:

Month	Gross Revenues	Expenses
January	\$200,000	\$160,000
February	\$210,000	\$160,000
March	\$220,000	\$160,000

- Historical cash collections from patient revenues are as follows:
  - 50% in month of service
  - 20% in month after service
  - 15% in second month after service
  - 15% uncollectible (contractual allowances and bad debts)
- To encourage prompt payment, the hospital gives a 2 percent discount if payment is made within the month of service. (Note: The 2 percent discount applies to all the 50 percent paid in the month of service.)
- The accounts receivable balance at December 31, 2015, was \$40,000, of which \$15,000 represented uncollected November revenues and \$25,000 represented uncollected December revenues.
- Expenses are paid 50 percent in the month they are incurred and 50 percent in the following month. December expenses were \$150,000.
- Cash balance at January 1, 2016, was \$40,000, and this is the minimum desired balance. To maintain this balance, any monthly cash shortfalls will be covered via an automatic short-term loan from the bank via a line of credit.

## Assignment

Prepare a cash forecast (budget) for the months of January, February, and March. Use the cash budget form on the next page.

*Hint: The cash budget form can be completed via the following steps:*

1. Enter the gross receivable for each month in the first column.
2. Calculate when and in what amounts the \$15,000 November revenues receivable balance will be collected, and enter this information in the form. Enter the amount that will not be collected in the "15% Not Collected" column.
3. Calculate when and in what amounts the \$25,000 December revenues receivable balance will be collected, and enter this information in the form. Enter the amount that will not be collected in the "15% Not Collected" column.
4. Calculate when and in what amounts the January, February, and March revenues will be collected, and enter this information in the form. Enter the amount that will not be collected in the "15% Not Collected" column.
5. Enter the early-payment 2 percent discount in each column to the extent appropriate.
6. Total the monthly cash inflows for January, February, and March.
7. Enter the expense cash payments for December, January, February, and March in the appropriate columns.
8. Subtract the expense payments from total cash inflows to calculate the monthly cash change.
9. Add the monthly cash change to the cash balance, beginning, to calculate the cash from financing needed to maintain the target cash balance, ending, of \$40,000.
10. Total out the various columns to check for mechanical errors.