

Payment #	Total Payment	Principal Portion of Payment	Interest Expense Portion of Payment	Remaining Principal Balance
			Beginning balance =	\$50,000.00
1	\$1,613.36	\$1,196.69	\$416.67	\$48,403.31
2	1,613.36	1,206.67	406.69	47,596.64
3	1,613.36	1,216.72	396.64	46,379.92
4	1,613.36	1,226.86	386.50	45,153.06
5	1,613.36	1,237.08	376.28	43,915.98
6	1,613.36	1,247.39	365.97	42,668.58

Practice Exercise 20-I: Loan Amortization

This exercise illustrates a different principal amount than Example 20A, but computed at the same monthly interest rate and the same number of payments.

Required

Compute the first 6 months of a loan amortization schedule with a principal balance of \$60,000, an interest rate of 10%, and a payment period of 3 years or 36 months.

Loan Amortization Schedule

Principal borrowed: \$60,000

Total payments: 36

Annual interest rate 10.00% (monthly rate = 0.8333%)

Payment #	Total Payment	Principal Portion of Payment	Interest Expense Portion of Payment	Remaining Principal Balance
			Beginning balance =	\$60,000.00
1				
2				
3				
4				
5				
6				

Assignment Exercise 20-1: Financial Statement Capital Structures

Required

Find three different financial statements that have varying capital structures. Write a paragraph about each that explains the debt-equity relationship and that computes the percentage of debt and the percentage of equity represented.

Also note whether the percentage of annual interest on debt is revealed in the notes to the financial statements. If so, do you believe the interest rate is fair and equitable? Why?

CHAPTER 21

Practice Exercise 21-I: Cost of Leasing

A cost of leasing table is reproduced below.

Required

Using the appropriate table from the Chapter 12 Appendices, record the present-value factor at 6% for each year and compute the present-value cost of leasing.

Cost of Leasing: Suburban Clinic—Comparative Present Value

Not-for-Profit Cost of Leasing:	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net Cash Flow	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)	—
Present-value factor (at 6%)						
Present-value answer =						
Present-value cost of leasing =						



Assignment Exercise 21-1: Cost of Owning and Cost of Leasing

Cost of owning and cost of leasing tables are reproduced below.

Required

Using the appropriate table from the Chapter 12 Appendices, record the present-value factor at 10% for each year and compute the present-value cost of owning and the present value of leasing. Which alternative is more desirable at this interest rate? Do you think your answer would change if the interest rate was 6% instead of 10%?

Cost of Owning: Anywhere Clinic—Comparative Present Value

For-Profit Cost of Owning:	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net Cash Flow	(48,750)	2,500	2,500	2,500	2,500	5,000
Present-value factor						
Present-value answers =						
Present-value cost of owning =						

Cost of Leasing: Anywhere Clinic—Comparative Present Value

Line #	For-Profit Cost of Leasing:	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
19	Net Cash Flow	(8,250)	(8,250)	(8,250)	(8,250)	(8,250)	—
20	Present-value factor						
21	Present-value answers =						
22	Present-value cost of leasing =						

- X
1. It will cost at least \$250,000 to purchase a new ambulance, although the cost varies widely depending upon the quantity and sophistication of the emergency equipment contained on the vehicle.
 2. In order to renovate the existing vehicle, it will cost at least \$100,000 to purchase and install a new "box." (In other words, a new emergency-equipped body is installed on the existing chassis.) Rob has found this existing ambulance has an odometer reading of 80,000 miles. The vehicle will also need a new fuel pump and new tires, but he believes these items would be recorded as repair and maintenance operating expenses and thus would not be included in his calculations.
 3. Lease terms for ambulances also vary widely, but so far Rob believes a cost of \$60,000 per year is a ballpark figure.

Required

How much more information should Rob have before he begins to make any calculations? Make a list. Which alternative do you believe would be best? Give your reasons.

CHAPTER 22**Assignment Exercise 22-1**

This group project assignment concerns situational analysis.

Create a hypothetical organization, complete with an IT department and financial, clinical, and administrative staff levels. This IT department is tasked with adopting and implementing EHR.

Required

Step 1. Using your hypothetical organization's personnel, assign a variety of scores to a Scoring Summary Sheet such as that shown in Exhibit 22-A-1 in the chapter Appendix.

Step 2. Summarize the scores and place the net scores in a SWOT matrix such as the one shown in Figure 22-6.

Step 3. Create a report to the organization's CEO that summarizes the (good or bad) results.

Optional Additional Assignment**Required**

Locate several healthcare organizations' mission, value, and vision statements. Use public sources with no privacy concerns.

Then fit the statements you have discovered into the chapter's categories of recognizing a special status or focus within the statements; financial emphasis within the statements; and/or relaying the message.

Assignment Exercise 21-2

Great Docs, a three-physician practice with two office sites, is considering whether to buy or lease a new computer system. Currently they own a low-tech (and low-cost) information system. The new system will have to meet all government specifications for an electronic health record system and will also have to connect the two office sites. It will be considerably more sophisticated than the current hardware and software and thus will require training for office staff, clinical staff, and the physicians. Everyone agrees there will be a learning curve in order to reach the system's full potential.

Doctor Smith, the majority owner of the practice, wants to buy a medical records system from Sam's Club. He argues that the package is supposed to electronically prescribe, track billings, set appointments, and keep records, so it should meet their needs. The cost of the first installed system is supposed to be \$25,000, plus \$10,000 for each additional system. The doctors are not sure if this means \$25,000 for one office site plus \$10,000 for the (connected) second office site for a total of \$35,000, or if this means \$25,000 for the first installed system plus \$10,000 each for three more doctors, for a total of \$55,000. There is also supposed to be \$4,000 to \$5,000 in maintenance costs each year as part of the purchased package. Doctor Smith proposes to pay 20% down and obtain a five-year installment loan from the local bank for the remaining 80% at an interest rate of 8%.

Doctor Jones, the youngest of the three physicians, has been recently added to the practice. A computer nerd, he wants to lease a complete system from the small company his college roommate began last year. While he has received a quote of \$20,000 for the entire system including first year maintenance, it does not meet the government requirements for an electronic health record system. Consequently, the other two doctors have outvoted Doctor Jones and this system will not be seriously considered.

Doctor Brown, the usual peace-maker between Doctor Smith and Doctor Jones, wants to lease a system. He argues that leasing will place the responsibility for upgrades and maintenance upon the lessor company, and that removing the responsibilities of ownership is advantageous. He has received a quote of \$20,000 per year for a five-year lease that includes hardware and software for both offices, that meets the government requirements for an electronic health record system, and that includes training, maintenance, and upgrades.

Required

Summarize the costs to the practice of owning a system (per Doctor Smith) versus leasing (per Doctor Brown). Include a computation of comparative present value. (Refer to [Assignment 21-1] for setting up a comparative present-value table.)

Assignment Exercise 21-3

Metropolis Health System has to do something about their ambulance situation. They have to (1) buy a new ambulance, (2) lease a new one, or (3) renovate an existing ambulance that MHS already owns. Rob Lackey, the Assistant Controller, has been asked to gather pertinent information in order to make a decision. So far Rob has found these facts: