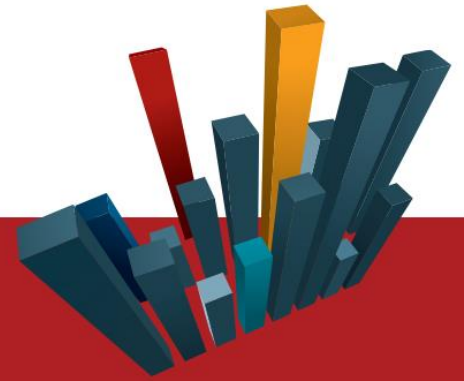


FOURTH EDITION

HEALTH CARE FINANCE

Basic Tools For Nonfinancial Managers

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Part V: Tools to Review and Manage Comparative Data

CHAPTER 14: USING COMPARATIVE DATA

Using Comparative Data

- Managers use comparative data to set common ground for planning, control and decision-making purposes.

Comparability Criteria

- True comparability needs to meet three criteria:
- Consistency
- Verification
- Monetary Unit Measurement

Consistency

- Three elements of consistency are all equally important:
- Time periods
- Consistent methodology
- Inflation factors

Verification

- You should ask three questions about verification:
- Can this data be verified?
- Is the data reasonable?
- If an objective, qualified person reviewed the data, would he or she arrive at the same conclusion and/or results?

Monetary Unit Measurement

- You should ask this question: is all the information being prepared or under review measured by the same monetary unit?
- In the U.S., we would expect all data to be in dollars, but properly consistent currency conversions are important when reporting global operations.

Uses of Comparative Data

- Four common uses of comparative data include:
- Compare current expenses to current budget
- Compare current actual expenses to prior periods in own organization
- Compare to other organizations
- Compare to industry standards

Table 14–1 Comparative Analysis of Budget Versus Actual

	<i>Hospital 1</i>					
	<i>Year 2 Actual</i>		<i>Year 2 Budget</i>		<i>Difference</i>	
	<i>\$\$</i>	<i>%</i>	<i>\$\$</i>	<i>%</i>	<i>\$\$</i>	<i>%</i>
General Services Expense						
Dietary	\$405,000	45	\$400,000	46	\$5,000	12.5
Maintenance	270,000	30	290,000	33	(20,000)	(6.9)
Laundry	45,000	5	50,000	6	(5,000)	(10.0)
Housekeeping	180,000	20	130,000	15	50,000	38.5
Total GS Expense	\$900,000	100	\$870,000	100	\$30,000	3.5

Figure 14–1 A Comparison of Hospital One's Budgeted and Actual Expenses

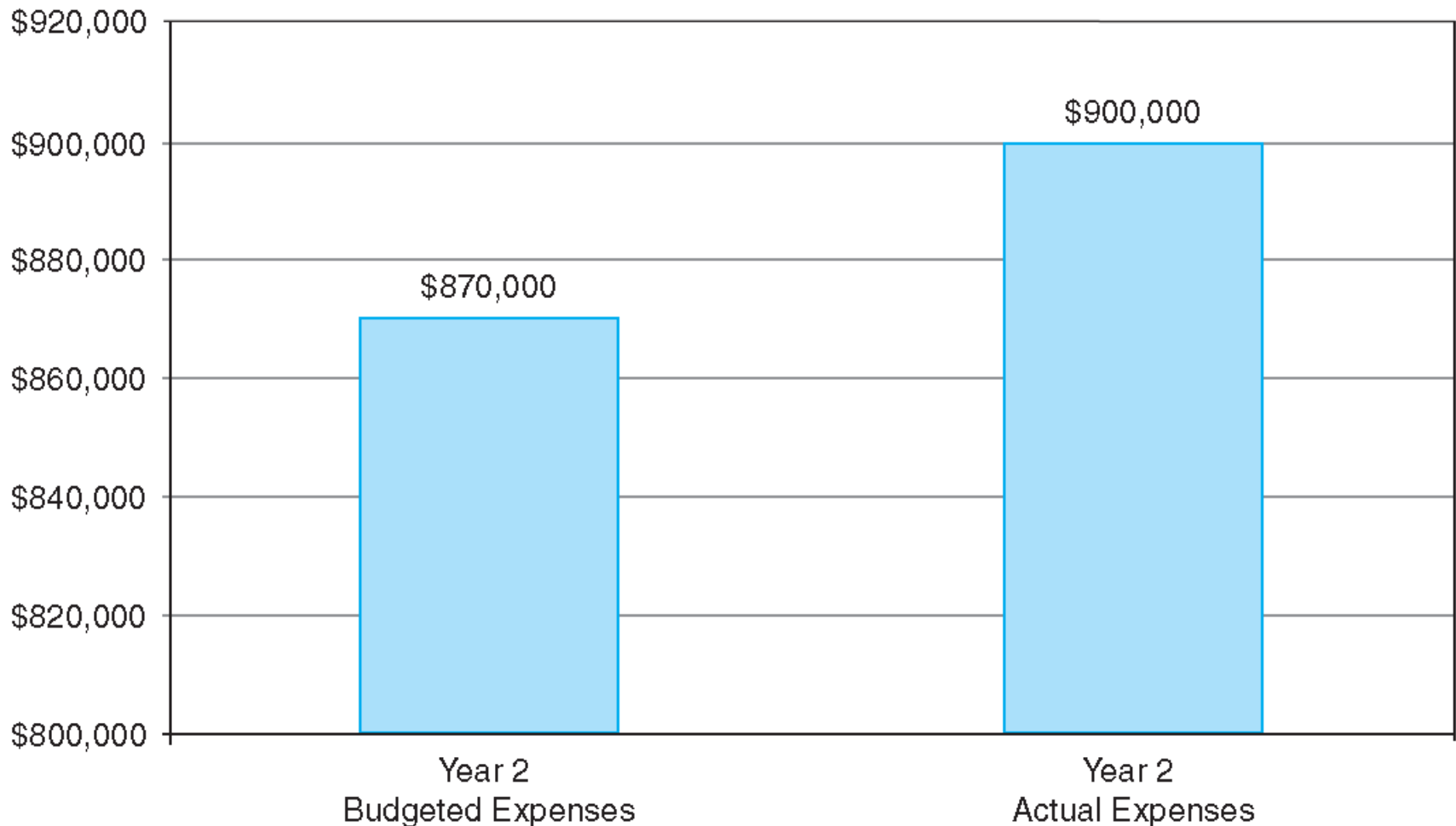


Figure 14-2 A Comparison of Hospital One's Expenses Over Time

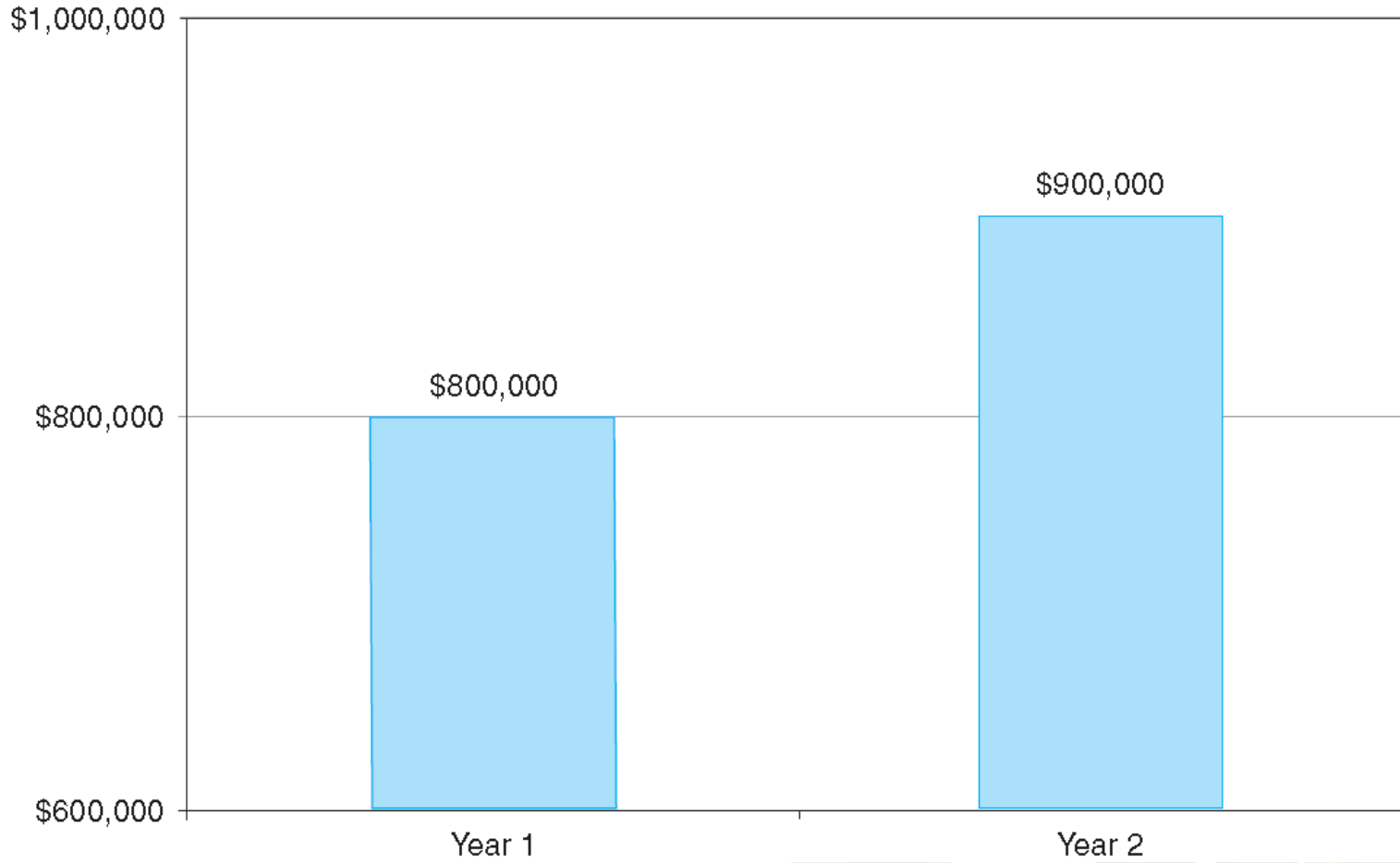


Figure 14–3 A Comparison of Three 100-Bed Hospitals' Long-Term Debt

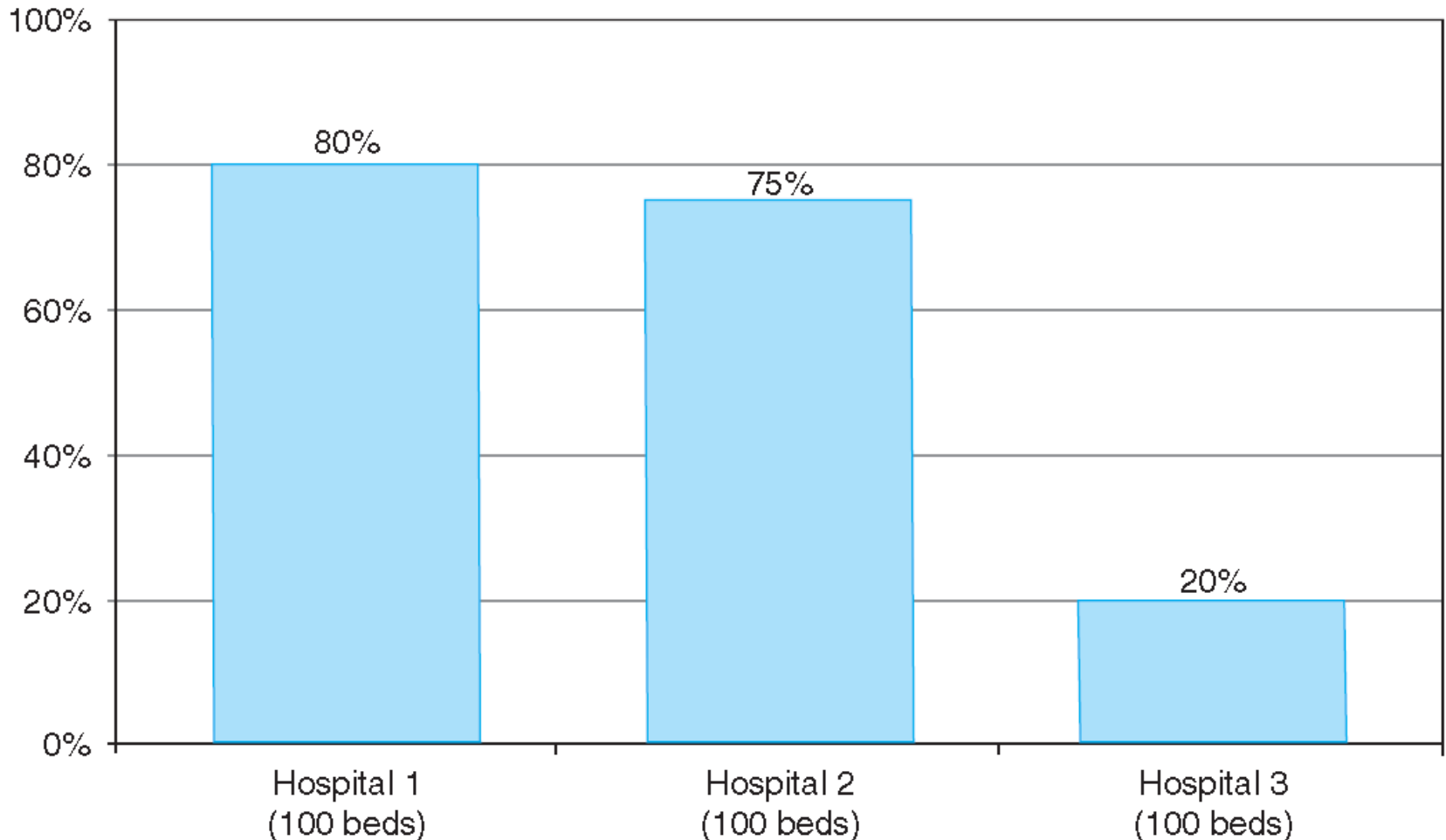


Figure 14–4 A Comparison of Three Hospitals' Total Expenses

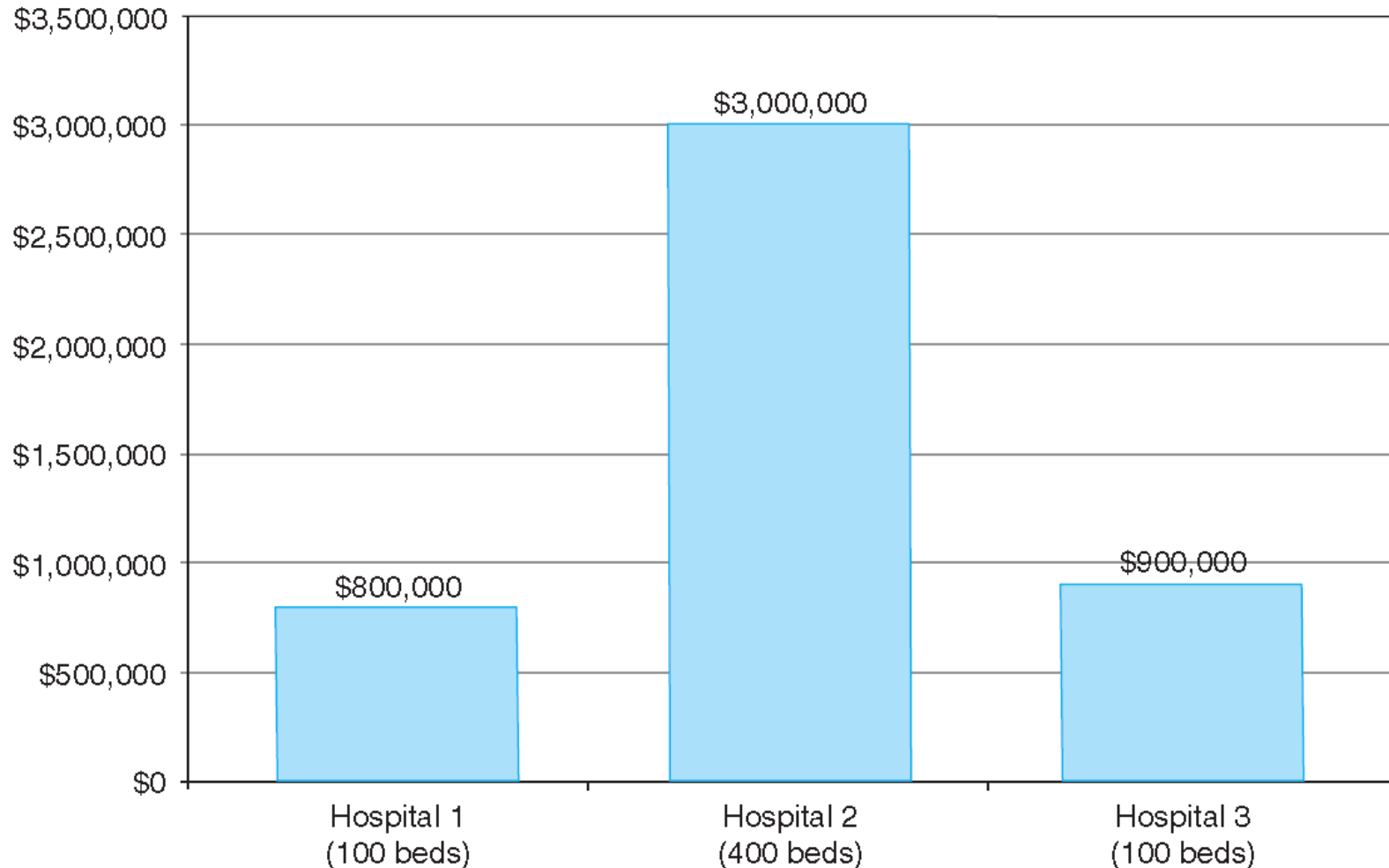


Figure 14–5 A Comparison of Three Hospitals' Expenses per Bed

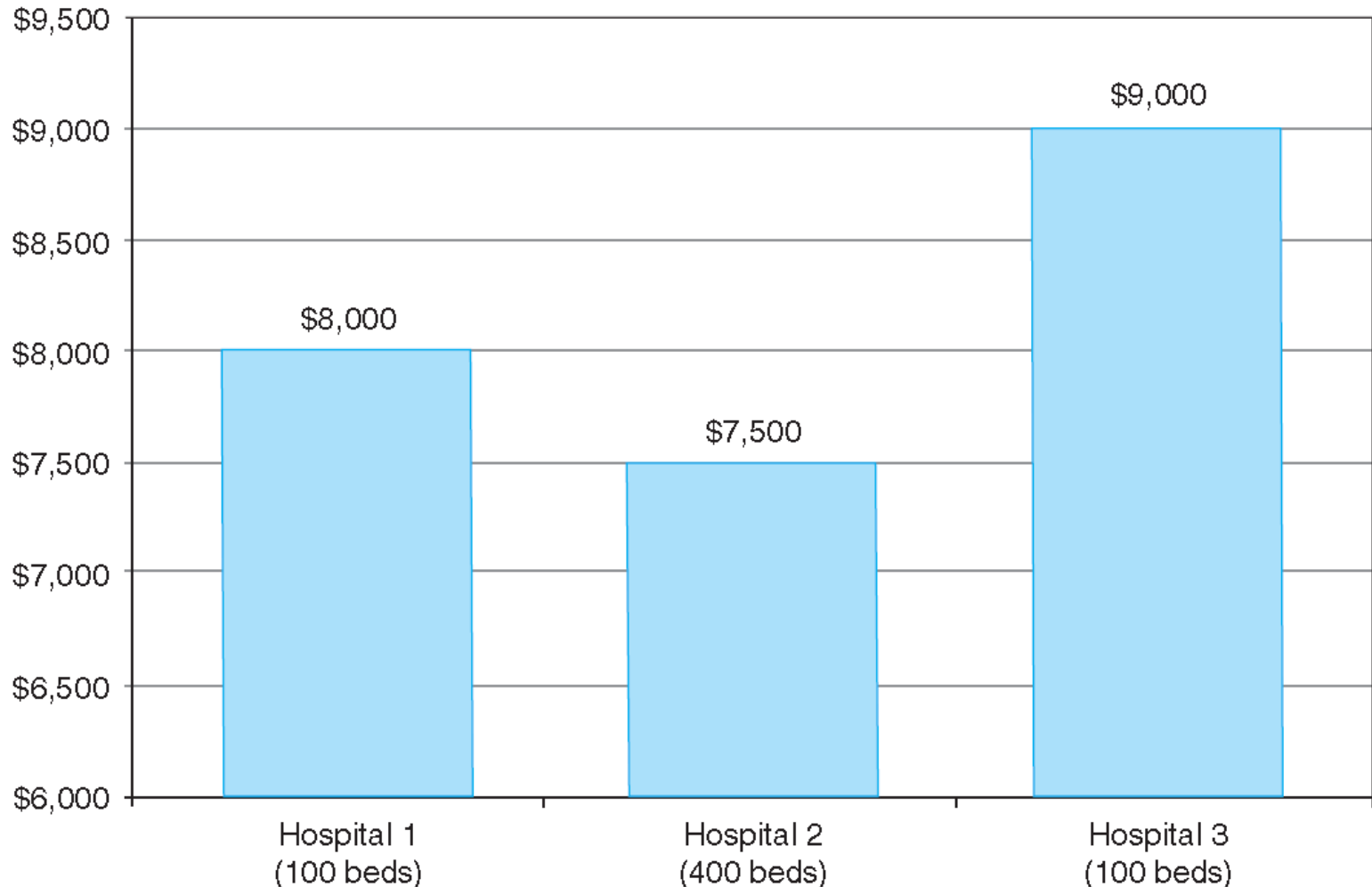
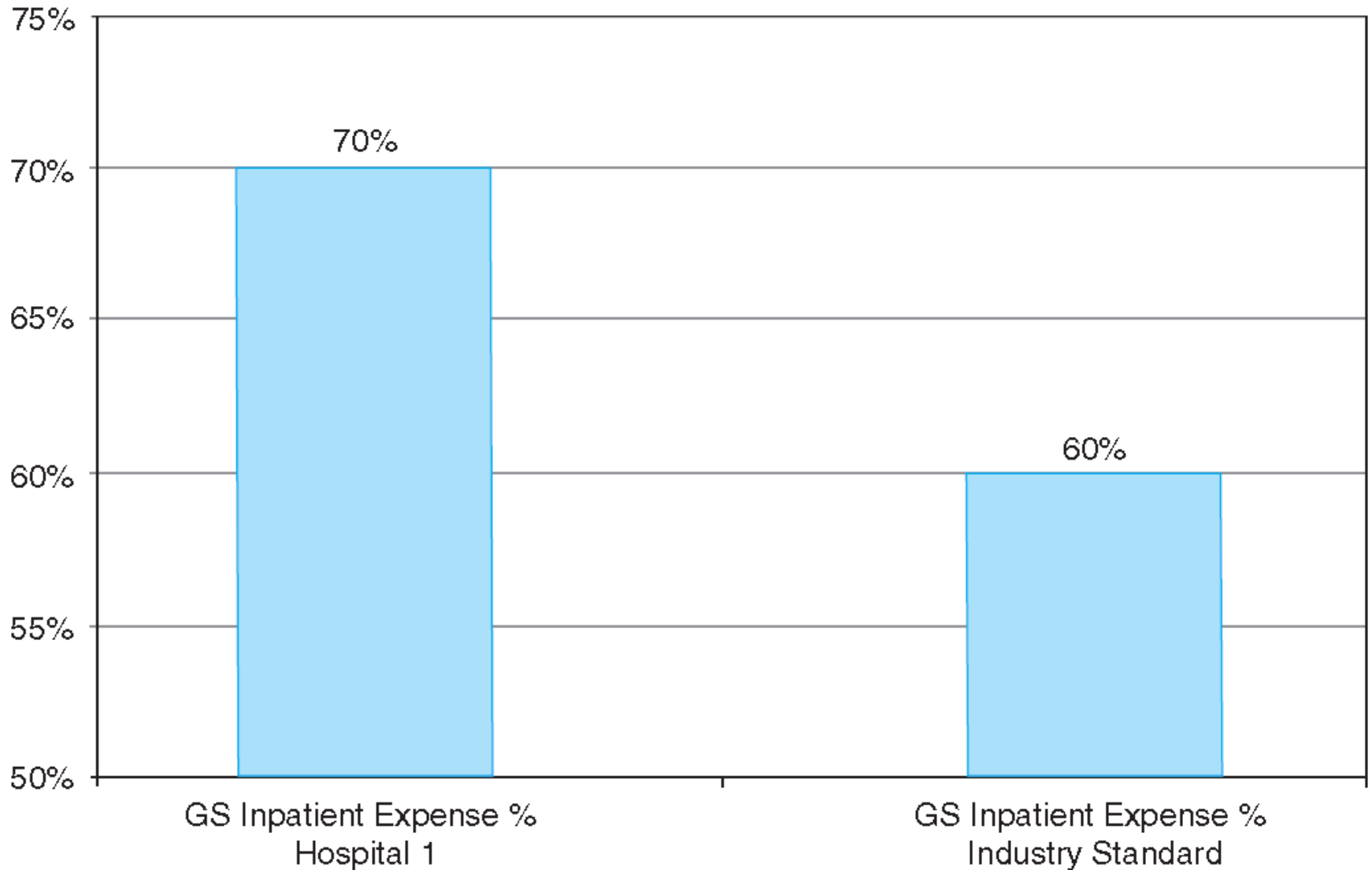


Figure 14–6 A Comparison of Hospital One's GS Inpatient Expenses with Industry Standards



Making Data Comparable- Annualizing Partial-Year Expenses

- Annualizing partial-year expenses is important to know because comparability requires such consistency.
- Table 14-2 (p. 158) sets out actual 10-month expenses that are annualized to 12 months. (Details about how to compute annualizing are in the chapter text.)

Making Data Comparable-Inflation Factors

- Inflation means “an increase in the volume of money and credit relative to available goods and services resulting in a continuing rise in the general price level.” (Merriam Webster’s Collegiate Dictionary, 10th ed., s.v. “Inflation”)
- An inflation factor is used to compute the effect of inflation over time. An example follows on the next two slides.

Table 14–3.1 Applying a Cumulative Inflation Factor

- SOURCE OF FACTOR IN COLUMN C ABOVE:
- From the Compound Interest Look-Up Table
- “The Future Amount of \$1.00” (Appendix 12-B)

Year	Factors as shown at 10%
1	1.100
2	1.210
3	1.331
4	1.464

Table 14–3.2 Applying a Cumulative Inflation Factor

(A)	(B)	(C)	(D)
Year	Real Dollars	Cumulative Inflation Factor*	Nominal Dollars**
1	\$500,000	$(1.10)^1 = 1.100$	\$550,000
2	500,000	$(1.10)^2 = 1.210$	605,000
3	500,000	$(1.10)^3 = 1.331$	665,500
4	500,000	$(1.10)^4 = 1.464$	732,050

*Assume an annual inflation rate of 10%. Thus $1.00 + 0.10 =$ the 1.10 factor in Column C.

**Column D “Nominal Dollars” equals Column B times Column C.

Making Data Comparable-Currency Measures

- Currencies are typically converted for financial reporting purposes using the
- U.S.-dollar foreign exchange rates as of a certain date.
- Chapter 14 explains how to convert currency using the exchange rates. Foreign currency examples follow on the next slide.

Exhibit 14–1 Foreign Currency Examples

<i>Country (or Area)</i>	<i>Currency</i>
Canada	Canadian dollar
China	Yuan
Euro Area	Euro
Japan	Yen
Mexico	Peso
United Kingdom	Pound

Making Data Comparable- Standardized Measures

- Finally, standardized measures aid comparability and especially assist in performance measurement.
- Electronic medical records – the wave of the future in health care – depend upon such standardized input.

Cumulative Inflation Factor for Comparable Data-Assignment Exercise 14-3: Solution

Projected Revenue (in millions)

	Year 1	Year 2	Year 3	Year 4	Year 5
Hosp. 1	\$20	\$22.50	\$27.50	\$27.50	\$30
Hosp. 2	\$20	\$22.05	\$27.55	\$27.75	\$31.6