CASE MODEL 1

ST. JAMES MEDICAL CLINIC, INC.

St. James Medical Clinic has $500,000 in ARs from a third-party payor that historically pays 96% of the claims in 60 days, denying the remaining 4%. A benefits company has offered the clinic $475,000 for the ARs. If St. James can earn 6% on excess cash, should it sell these ARS?

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KEY ISSUES:

Considering the tools and techniques reflected in this section, what factors should the St. James Clinic consider in making its decision?

1) What is the actual cost?
2) What is the benefit?
3) On what grounds could you argue that selling would be a sound financial move?

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SOLUTION:

The benefit to St. James is less than the cost.

The cost is $475,312 and the benefit is $475,000, calculated in this manner:

$500,000 (.96)/1+[1+(.04/365)*60] = $476,864.