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Question 1

Question Type: MultipleChoice

Health plans have access to a variety of funding sources depending on whether they are operated as for-profit or not-for-profit organizations. The Verde Health Plan is a for-profit health plan and the Noir Health Plan is a not-for-profit health plan. From the answer choices below, select the response that correctly identifies whether funds from debt markets and equity markets are available to Verde and Noir:

Options:

- A-** Funds from Debt Markets: available to Verde and Noir
Funds from Equity Markets: available to Verde and Noir
- B-** Funds from Debt Markets: available to Verde and Noir
Funds from Equity Markets: available to Verde only
- C-** Funds from Debt Markets: available to Verde only
Funds from Equity Markets: available to Noir only
- D-** Funds from Debt Markets: available to Noir only
Funds from Equity Markets: available to Verde only

Answer:

B

Question 2

Question Type: MultipleChoice

The Danner Bank loaned money to the CareWell Health Plan to fund an expansion of a healthcare facility. With respect to the type of financial information user Danner represents to CareWell, it is correct to say that Danner is an:

Options:

- A- Internal user with a direct financial interest
- B- Internal user with an indirect financial interest
- C- External user with a direct financial interest
- D- Case-mix adjustment

Answer:

C

Question 3

Question Type: MultipleChoice

The following statements are about a health plan's capital budgeting process. Select the answer choice containing the correct statement.

Options:

- A-** Under sensitivity analysis, a health plan ranks all capital project proposals according to expected rates of return and accepts only those proposals with the highest rankings.
- B-** A project that has a profitability index of 0.0 has an NPV of zero.
- C-** An underlying assumption of capital budgeting is that a health plan should keep its investing decisions separate from its financing decisions.
- D-** Under the internal rate of return (IRR) method, if a project's IRR is less than a health plan's weighted average cost of capital (WACC), then the project's benefits should exceed its costs and the health plan should accept the project.

Answer:

C

Question 4

Question Type: MultipleChoice

In order to print all of its forms in-house, the Prism health plan is considering the purchase of 10 new printers at a total cost of \$30,000. Prism estimates that the proposed printers have a useful life of 5 years. Under its current system, Prism spends \$10,000 a year to have forms printed by a local printing company. Assume that Prism selects a 15% discount rate based on its weighted-average costs of capital. The cash inflows for each year, discounted to their present value, are shown in the following chart:

Year	Cash Inflow	Discounted Cash Inflow	Running Total
1	\$10,000	\$ 8,695	\$ 8,695
2	10,000	7,561	16,256
3	10,000	6,575	22,831
4	10,000	5,717	28,548
5	10,000	4,972	33,520
		<u>33,520</u>	

Prism will use both the payback method and the discounted payback method to analyze the worthiness of this potential capital investment. Prism's decision rule is to accept all proposed capital projects that have payback periods of four years or less.

Now assume that Prism decides to use the net present value (NPV) method to evaluate this potential investment's worthiness and that Prism will accept the project if the project's NPV is greater than \$4,000. Using the NPV method, Prism would correctly conclude that this project should be

Options:

- A- Rejected because its NPV is \$3,520
- B- Accepted because its NPV is \$5,028
- C- Accepted because its NPV is \$16,480
- D- Accepted because its NPV is \$23,520

Answer:

A

Question 5

Question Type: MultipleChoice

In order to print all of its forms in-house, the Prism health plan is considering the purchase of 10 new printers at a total cost of \$30,000. Prism estimates that the proposed printers have a useful life of 5 years. Under its current system, Prism spends \$10,000 a year to have forms printed by a local printing company. Assume that Prism selects a 15% discount rate based on its weighted-average costs of capital. The cash inflows for each year, discounted to their present value, are shown in the following chart:

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Prism will use both the payback method and the discounted payback method to analyze the worthiness of this potential capital investment. Prism's decision rule is to accept all proposed capital projects that have payback periods of four years or less.

After analyzing this information, Prism would accept this proposed capital project under

Options:

- A- Both the payback method and the discounted payback method
- B- The payback method but not the discounted payback method
- C- The discounted payback method but not the payback method
- D- Neither the payback method nor the discounted payback method

Answer:

B

Question 6

Question Type: MultipleChoice

The process of converting the present value of a specified amount of money to its future value is known as

Options:

A- Capital budgeting

B- Compounding

C- Capital rationing

D- Discounting

Answer:

B

Question 7

Question Type: MultipleChoice

A financial analyst wants to learn the following information about the

Forest health plan for a given financial period:

- A) Forest's beginning-of-period cash balance
- B) Forest's minimum cash balance
- C) The cash needs of Forest during the period
- D) Forest's end-of-period cash balance

From Forest's cash budget, the analyst most likely can obtain information about

Options:

- A-** A, B, C, and D
- B-** A, B, and C only
- C-** A and D only
- D-** B and C only

Answer:

A

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