

Healthcare finance

Finance



Healthcare finance Elements of Profit Analysis that Change when a Provider Moves from a Fee For Service to a Discounted Fee For Service Environment

Fee for service method differs from discounted fee for service method, in terms of profit analysis because of the involved discount in the discounted fee for service method. The discount identifies change in marginal cost equation, contribution, profit-volume ratio, and breakeven point. Contribution defines positive difference between sales and variable cost and effects of discount on sales implies effects on contribution. Consequently, contribution reduces as a provider moves from a fee for service environment to a discounted fee for service environment. Variability in contribution further implies variability in marginal cost equation because contribution is an element of the equation. In addition, contribution has direct impact on profit and change in the environment, with volume remaining constant, means lower profit to volume ration because of lower contribution. Further, reduced marginal cost, due to discount the discounted fee for service environment shifts the break-even point. Consequently, contribution influences change in the other three elements of the analysis (Gapenski, 2008).

Important attributes of Effective Cost Drivers

Ability to identify factors to cost is one of the important attributes of cost drivers. This allows for cost determination and ability to control costs.

Another important attribute of an effective cost driver, which transcends to effectiveness of cost allocation, is the ability to identify the level at which cost occur, a feature that facilitate understanding of costs and their control (Gapenski, 2008; Kinney and Raiborn, 2012).

References

Gapenski, L. (2008). Health finance: An introduction to accounting and <https://assignbuster.com/healthcare-finance-essay-samples-3/>

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