

Westmount retirement residence case



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Evaluate the strengths and limitations of the current costing model at Westmount.

Explain Westmount's poor results in 2005;

Using the cost information in Exhibit 4 design a new costing system, taking into account the three suite options and the three levels of required patient care. What is the new cost per patient under each of the options?

How useful is this new information to Roswell for pricing purposes? What prices should Roswell recommend be charged for the various suite options and for the various levels of required patient care?

1. 0 Evaluate the strengths and limitations of the current costing model at Westmount.

The Strengths and Limitations of Westmount current costing model are:

1. 1 Strengths

The act of allocating prices at Westmount to residents and patient is fair to some extent as the total cost of running the retirement residence is divided by the total floor area or room size. The result being the base cost which is the price for a studio plus 5 per cent to account for inflation in the coming year. The cost of a studio plus the multiplier of 25 and 50 per cent are the costs of One-bed room and Two-bed room suites respectively. Therefore, the more luxurious a resident wants to live the more amounts he/she pays, which is a very good way of allocating price to suite facilities.

The culture of departmental accounting adopted by Westmount is a good costing model, for accounting purposes, which allow departments to undertake the calculation of their own expenditures. The costs that are directly traceable to a particular department are accounted for under such departments, this also allow Westmount to determine which of the departments incur more of the retirement residence expenditures.

The current costing system of Westmount retirement residence is driven by competition, in other words Westmount prices is relatively low looking at price of other residence firms in the industry. The price of the current costing system at Westmount encourages patients/customers to make their ways to Westmount retirement residence living the other options. The cost of a studio apartment at Westmount is approximately \$1, 245. 14, which is far reasonable as compared to the other retirement home considered its competitors. The same goes for the One-bedroom and Two-bedroom apartment prices. This system though not profitable has placed Westmount in a more competitive form among others.

1. 2 Limitations

Though, as discussed above, the current costing model of Westmount retirement residence has some strengths/advantages, the current costing model also has some limitations/pitfalls which are discussed below:

Westmount current costing model has a problem of price differentiation to the various patients. The current costing model is allocating prices to patient base on room size, not taking into consideration the various needs of the residents. As in the case ' however, room size and a flat rate alone shouldn't

drive the pricing system' there are about three groups of residents in Westmount, they are: 1) those with no medical needs, 2) those with moderate medical needs and 3) those with intense medical needs.

Westmount has failed to consider the varying needs of its residents using the current costing model which in the long-run will militate against its profit making ability. Ideally these costs should be segregated among patients base on their needs.

The evenly allocation of overheads by Westmount under the current costing model is practically unacceptable so to speak. This is so because Westmount knowing too well that the departments are not equal in square footage, therefore, allocating overheads equally among these department makes the current cost model to be inappropriate. In allocating overheads, it would have been appropriate if Westmount would have done it based on the square footage of the departments or based on the proportion of their total expenditures.

The current costing model used by Westmount has no system in place to account for the varying services of the organization. Westmount retirement residence has the following services to offer to its patients/residents such as: 1) Nursing and 2) Dietician services. The current costing model of Westmount does not account for these services." Certain patients with serious medical conditions such as diabetes rely upon these services quite heavily: however, other residents never utilized the services". If these costs are properly accounted for under the present costing model, they can be appropriated to those who make use of/utilized them and be included in their fees.

Explain Westmount's poor results in 2005

2. 1 Why poor results in 2005 for Westmount?

The main reason for Westmount's poor results in 2005 was because of the current costing model especially when used in allocation of cost and Price differentiation to varying patients and/or residents. Westmount allocated prices to resident base on room size or square footage. In Roswell's conclusion, she said that " room size and flat rate alone shouldn't drive the pricing system. As different residents require different level of care, costing, and therefore pricing must reflect that". Since Westmount has three groups of residents allocating pricing to residents base on floor area alone this will likely result to poor financial performance. This is because a patient in the studio with the least price will end up utilizing most of the services than those who occupy the One-bedroom and Two-bedroom suites with highest prices, which I believe must have happened.

Like in the case of Chelsea park retirement community, patient with intense medical needs could purchase nursing and medical support at an additional cost, at long-worth retirement village as well " For seniors who preferred more independent living a so-called a la carte purchase option available for amenities. Also, at Central park lodge an amount of \$3, 200 is put aside for any extra medical care per month which has been a factor responsible Central park profit making ability if any.

The above are Westmount competitors who allow residents to pay for any extra additional services, thereby avoiding the act of undertaking additional expenses that will eventually reduce profit. I believe Westmount should try

to account for such services as dietician and nursing and include them in the monthly/yearly rate per resident especially those who utilized the services.

These areas which were not considered by Westmount when setting up the costing model are major cost centres with huge figure that must have been used in the income statement as the supportive services which is the highest expenses figure. I strongly believe that those aspects are responsible for Westmount's poor result in 2005.

Using the cost information in Exhibit 4 design a new costing system, taking into

account the three suite options and the three levels of required patient care. What is the new cost per patient under each of the options?

Using the information in exhibit 6 of the case study, I was able to derive the following figures using the hourly rate and number of by the staff involve as in exhibit 2 below.

In deriving a costing model for Westmount taking into account the three suite options, one would have to first of all divide the expenses, as in exhibit 1 of the course work, by the number of residents. The amount, derived after the division, is then multiplied by five per cent to account for inflation for the coming years. This is as follows:

The total expenses = \$1, 917, 426

The total number of residents = 160

Cost per residents = $1, 917, 426/160$

$$= \$11,983.91$$

The cost per resident is now multiplied by 5% for inflation, $\$11,983.91 \times 1.05$

$$= \$12,583.10$$

Now let's first look at the costing system with the three suite options with the studio as the base figure below:

$$\text{Studio Suite} = \$12,583.10$$

$$\text{One-bedroom Suite per residents/per year } (\$12,583.10 \times 1.25) = \$15,728.88$$

$$\text{Two-bedroom suite per residents/per year } (\$12,583.10 \times 1.50) = \$18,874.65$$

Designing a costing system taking into account the three suite options and the three levels of required patient care, that should be done as below:

Cost per resident/ per year for a studio suite taking into account the three levels of required patient care

$$\text{No medical needs } (\$12,583.10 + 8,151.60) = \$20,734.70$$

$$\text{Medium medical needs } (\$12,583.10 + 23,210.40) = \$35,793.50$$

$$\text{Intense medical needs } (\$12,583.10 + 37,778.10) = \$50,361.20$$

Cost per resident/ per year for a One-bedroom suite taking into account the three levels of required patient care.

No medical needs $$(15,728.88 + 8,151.60) = \$23,880.48$

Medium medical needs $$(15,728.88 + 23,210.40) = \$38,939.28$

Intense medical needs $$(15,728.88 + 37,778.10) = \$53,506.98$

Cost per resident/ per year for a One-bedroom suite taking into account the three levels of required patient care.

No medical needs $$(18,874.65 + 8,151.60) = \$27,026.25$

Medium medical needs $$(18,874.65 + 23,210.40) = \$42,085.05$

Intense medical needs $$(18,874.65 + 37,778.10) = \$56,652.75$.

4. 0 How useful is this new information to Roswell for pricing purposes? What prices should Roswell recommend be charged for the various suite options and for the various levels of required patient care?

4. 1 Usefulness of the new information

This new costing information I have prepared will be more useful to Roswell because it has the potential to generate more profit as compared to the current costing system profit as stated in the income statement in the case study. This new costing information I have designed is based on the services and facilities provided by Westmount retirement residence, I took into consideration future inflation and the extra supportive services as utilized by the residents in the retirement residence.

As it is now, the new costing model I have designed for Westmount can help to maximize in the long run. This information is allowed for both types of

suite available at Westmount and the level of patient medical care.

Previously, the costing model of Westmount does not account for the level of patient care, which at the end allows those with intense medical to pay less and utilize more of the facilities than those who pay more, thereby putting Westmount in a poor financial performance. Roswell will find this information useful as it is now cost per resident rather than floor area or room size, which has been a problem experienced by Roswell where more than one person resides in a suite. Now with this costing model, that account for a fee per patients, no patient or resident will use the residence facility for free. Roswell will have to use the pricing method as under the above suites taking into consideration the varying medical needs of the patients/residence, thereby realizing more profits or in other words maximize profit. Even with the level of patient care included in the cost per resident for Westmount, the cost of a suite per resident at Westmount is still reasonable and cheaper as compared to the others in the same industry. For instance the cost of a studio suite per resident taking into account the required level of patient care per month which are:

1) No medical needs \$1, 727. 89, 2) Medium medical needs \$2, 982. 79, and 3) Intense medical needs \$4, 196. 76 is more reasonable and affordable than the cost of a studio suite of other retirement homes in the same industry.