Costing cost of nursing care per patient day

Costing or cost finding is determining the cost of a procedure or service, for example, cost of nursing care per patient day in a general ward and in ICU, diet cost per day, cost of particular surgical operation, cost of obligatory investigations for a maternity case; in OPD, cost per OPD attendance; in laundry, per 100 pieces laundered and so on. The purpose of costing is for: i. Determining profitability of a specific revenue centre, and ii. Rate setting establishing charges for various service components. Before we proceed further, the meaning of various terms used in costing should be clearly understood.

1. Direct Costs:

Standard costs are costs incurred in running a department or service for fulfilling the primary purpose of that department or service. They can be apportioned directly to the particular activity or procedure. Usually, these are expenditures incurred by the concerned department covering salaries and labour costs, and cost of supplies and stores in rendering the service. As the concerned department generally has considerable control over these costs, these costs are also referred to as controllable costs.

2. Indirect Costs:

Indirect costs are the costs incurred by other departments or service in support of the primary function of direct patient care. The same cost may be direct for one department but indirect for another.

For example, maintenance supplies (say, spare parts) are direct costs to maintenance department, but indirect cost to CSSD or mechanised laundry.

3. Operating Costs:

Operating costs are the actual overall costs incurred by a department to generate patient services and other functions of the department. These include the costs incurred on salaries, supplies and stores, maintenance, rent, utilities, and other related costs. Operating costs are a combination of direct and indirect costs.

4. Fixed Costs:

Fixed costs are the expenditures incurred irrespective of the quantum of workload. The hospital must maintain a certain basic staff, physical facilities, plant and equipment, pay for water, electricity and other utilities, pay rent and taxes, cater for depreciation, and pay interest on borrowed capital.

All this irrespective of whether it functions to its full capacity or half even when no patient care is provided, the hospital incurs these costs. Fixed costs do not vary with the volume of service.

5.

Variable Costs:

Variable costs are costs which vary in proportion to changes in volume of service (or goods produced). Variable costs include the portion of operating costs which themselves vary in proportion to the workload. There is more or less a fixed relationship between the use of specific resources, say consumable supplies, and volume of service. Approximately, 30 per cent of all hospital costs are variable.

6. Semi Variable Costs:

Semi variable costs do not vary in proportion as the volume of service increases. A semi variable cost may increase or decrease continuously, but the percentage change in cost may be less than in the level of activity. For example, if the volume of service increases by 10 per cent, semi variable costs may rise only by 7 per cent (as a result, the corresponding cost per unit will decline).

Uses of additional manpower in providing general support services or to maintain physical facility, are examples of semi variable costs. Cost finding determines the total cost for producing patient services of a department, and provides nonrevenue producing departments the cost of services their departments render in support of revenue producing departments. This information is utilised in establishing charges for patient services.

In order to calculate the total cost of revenue producing departments, the direct costs of all nonrevenue producing departments must be proportionately reallocated to revenue producing departments on some logical basis. Full cost consists of direct cost of the department and the allocated costs of the general service departments. Service departments comprise of housekeeping, laundry, dietary, CSSD, nursing, administration, general administration and the like.

7. Allocating Indirect Costs:

The next step in cost finding is to allocate the accumulated costs of each service department to each revenue department to find the total costs of producing the service.

There are two methods of allocating indirect costs. 1. Costs can be classified by departments, individual cost items are charged to the revenue producing departments to which they can be traced.

2. Costs can also be classified by objects of expenditure, e. g. supplies and materials, salaries, rent, insurance, maintenance, etc. For the purpose of cost finding all departments are classified either as direct or indirect departments, depending upon whether they provide service directly to the patient or otherwise. The allocation of the costs of indirect (non- revenue-producing) departments to direct (revenue- producing) departments should reflect as nearly as possible the actual costs incurred by the indirect department in proportion of the service provided to direct department.

Correct allocation of costs to a given direct department has an important bearing on pricing. There are no hard and fast rules for apportionment of indirect or service costs. The basis of apportionment can be determined based on the organisational and special circumstances.

Some examples of allocation of indirect costs are as follows. 1. Building depreciation allocation on basis of floor area 2. Lighting charges on basis of kilo wattage 3. Depreciation of medical equipment on basis of hours of use 4. Air-conditioning allocation on basis of cubic feet area 5.

Housekeeping allocation on basis of floor area 6. Laundry allocation on basis of kgs of clothes laundered 7. General administration number of administrative personnel 8. Dietary on basics of number of meals supplied.

Service departments also provide service to one another, and costs of one service department should also be allocated to other such departments, to which they are traceable. However, the effect of allocating costs of service departments to one another is so insignificant that it can be ignored for the purpose of rate setting. However, an elaborate method called the “ step-down method” is used for assigning costs of service departments to one another and then reallocating the accumulated cost of each service department to revenue proceeding department. The method starts assigning the costs in sequence of the departments which render most service to others (or which has the highest cost) but receive the least. A cost accounting expert should be consulted for this. The medical staff must be involved in the study of costing information to ensure the best use of resources.

This follows from the fact that the level of activity of many departments is largely influenced by medical requirements arising from case-load and the medical procedures adopted.