

Cost classifications critical essay

Science, Computer Science



Cost Classifications Consult Ch. 6 & 7 of HealthCare Finance and other sources to complete the form. This worksheet requires you to match the definitions and examples of types of cost, and the types of centers where costs occur.

Part 1: For each term in Column A, select the correct definition from Column B on the right. Write the corresponding letter of the definition next to the term.

Column A

1. Indirect costs
2. Direct costs
3. Fixed costs
4. Variable costs
5. Step-fixed costs
6. Responsibility centers
7. Revenue centers
8. Cost centers

Shadow cost centers

Column B – Definitions

- A. Costs incurred directly as a result of providing a specific service or good
- B. Centers charged with controlling costs and generate revenue
- C. Have no revenue budget and no obligation to earn revenue
- D. Costs that do not vary as service volume varies
- E. Fixed over some range of service volume, but rise to a new level for a higher range of service volume
- F. Costs that cannot be tied directly to the patient's stay in the bed
- G. Exist as budgets on paper only
- H. The places where costs occur and have budgets
- I. Costs that change as volume changes

Part II: For each real-world example, select the correct term from the list on the left. Write the corresponding letter of the real-world example next to the term.

Column A

1. Indirect costs
2. Direct costs
3. Fixed costs
4. Variable costs
5. Step-fixed costs
6. Responsibility centers
7. Revenue centers
8. Cost centers
9. Shadow cost centers

Column B – Real-World Examples

- J. A subunit of a larger organization that is responsible for some type of budget, such as the payroll department or courier service
- K. Shares of depreciation, administration division, or laundry service
- L. Administration, human resources, or housekeeping
- M. Utility bill, supplies, or

Shares of depreciation, administration division, or laundry service L.

Administration, human resources, or housekeeping M. Utility bill, supplies, or

maintenance N. Nursingcare, foodconsumed, drugs administered O. Hospital cafeteria, gift shop, or parking ramp P. Depreciation of hospital equipment Q. Building loan payment, building insurance, or cable or internet service R. The nurse-to-patient ratio on the cardiac unit is one to three patients. There are four nurses scheduled for 12 patients. During the second shift, three more patients are admitted. The nurse manager calls in a fifth nurse.

Part III: Select two choices from Part II and explain why they meet that cost classification. # 7 Revenue centers. I chose hospital cafeteria, gift shop, and parking ramp as the real life example of revenue centers because these are all for profit examples. The profit of any of the examples mentioned above contributes to the revenue of the hospital in general. # 4 Variable costs The reason I chose nursing care, food consumed, and drugs administered as the real life example for variables costs is because these costs fluctuate based on the hospitals or facility census.