BREAK-EVEN ANALYSIS

Learning outcome

Learners will be able to give the reason for calculating the break-even point (to determine whether a programme or service will be profitable. Break-even analysis is a tool that allows one to focus specifically on the quantity of patients needed for a programme, project or service to be financially viable. Its foundations are in fixed and variable costs (Finkler & Kovner 1993:150).

Range statement

Middle- and top-level nurse managers will be able to do the calculations and arrive at the correct break-even point.

Assessment criteria

1. Determination of all the fixed costs, for example the cost of the number of nursing and medical staff to be employed for rendering the service; the rent/upkeep costs of the building; the cost of supplies per month; and the cost of supplies needed per patient per visit; the cost of the laundry per patient per visit; and the cost of the salaries of the domestic personnel needed.

2. Determination of all the variable costs, for example telephone charges per month, telephone costs per number of patients, water and electricity costs.

3. Determination of the estimated variable costs, for example costs of medicines to be supplied per patient.

4. Determination of the estimated depreciation expenses of medical and office equipment, such as computers.

5. Determination of the fixed revenue expected per patient visit, for example R15,00 per visit.

6. Calculation of the number of patient visits needed to reach a break-even point with the total costs expended.

Specific outcome

Learners will be able to display the calculated break-even point graphically, for example:
Critical outcomes

Learners will be able to

- correctly calculate the sum of all the fixed costs
- correctly calculate the sum of all the estimated variable costs
- determine the total of fixed and variable costs
- determine the revenue per patient visit
- determine the break-even point by dividing the total costs by the revenue per patient visit and thus establishing how many patient visits will be necessary to reach the point.
- explain the feasibility of rendering the service

Reference

