

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

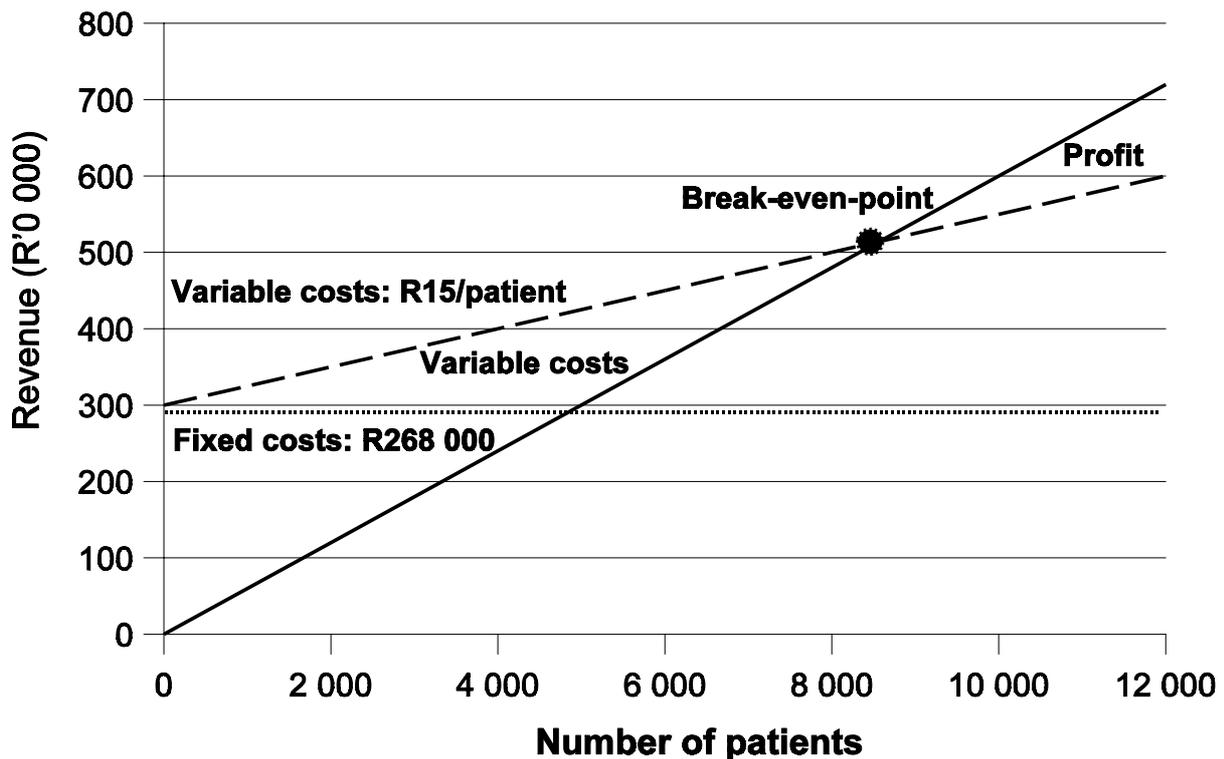
Middle- and top-level nurse managers will be able to do the calculations and arrive at the correct break-even point.

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:



Source: Booyens 1998:168, adapted from Dienemann (1992:123)

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

Booyens, SW (ed). 1998. *Dimensions of nursing management*. 2nd edition. Kenwyn: Juta.

Finkler, SA & Kovner, CT. 1993. *Financial management for nurse managers*. Philadelphia: WB Saunders.

