47. Add or drop decision. The Ancome County Health Department is considering using 300 square feet of excess office space to provide a clinic for Healthchek visits. These visits are reimbursed at $67.30 under a Medicaid program. Variable costs per visits are $53.30, and providing the service requires an additional physician assistant and nurse with prorated salaries of $90,000 and $50,000, respectively. The state has mandated efforts to increase the utilization of Medicaid eligibility, so the Department of Social Services is conducting interventions to increase eligibility awareness in the community. As a result, the health department expects 10,000 Healthchek visits in the coming year. Unavoidable overhead costs for the health department are $300,000 per year and will be allocated to each program based on its proportional share of the health department’s total office space of 2,700 square feet.   
a. What are the total contribution margin and total product margin for a Healthchek visit?   
b. Considering the total product margin, should the health department provide the service?   
c. Are there any other considerations that should be taken into account when making this decision?

53. Franklin county hospital, a nonprofit hospital, bought and installed a new computer system last year for $150,000. The system is designed to relay information between labs and medical units. Charlene Walker, the hospital’s new computer specialist, had a meeting with Lou Campbell, vice president of finance. She began: Lou, today I read in a journal that a new computer system has just been introduced. It costs $100,000, but I believe that by replacing our old system, we could reduce operating and maintenance costs that are now being incurred.” The following are Walker’s estimates:

|  |  |  |
| --- | --- | --- |
|  | **Present Systems** | **New System** |
| Purchase and installment price | $150,000 | $100,000 |
| Use life when purchased | 6 years | 5 years |
| Computer operating costs per year | $45,000 | $30,000 |
| Computer operating and maintenance  costs per year | $25,000 | $12,000 |
| Depreciation expenses per year | $10,833 | $20,000 |
| Cost of Capital | 10% | 10% |

1. Based on an analysis, what advice do you recommend that Walker give Campbell?
2. At what price for the new computer system would Campbell be indifferent?

Is this typical make-or-buy decision? Why?