

ACG 6309
Chapter 6 Assignment to Turn In

Due no later than 11:59 pm CDT, Sunday, April 3. You may work in a group or individually. If you work in a group, include the names of all group members on your submission. Upload your solution as a WORD, PDF or EXCEL file to your Dropbox. Late submissions will not be accepted.

"I don't understand this cost report at all," exclaimed Jeff Mahoney, the newly appointed administrator of Mountainview General Hospital. "Our administrative costs in the new pediatrics clinic are all over the map. One month, the report shows \$8,300, and the next month, it's \$16,100. What's going on?"

Mahoney's question was posed to Megan McPherson, the hospital's director of Cost Management. "The main problem is that the clinic has experienced some widely varying patient loads in its first year of operation. There seems to be some confusion in the public's mind about what services we offer in the clinic. When do they come to the clinic? When do they go to the emergency room? That sort of thing. As the patient load has varied, we've frequently changed our clinic administrative staffing."

Mahoney continued to puzzle over the report. "Could you pull some data together, Megan, so we can see how this cost behaves over a range of patient loads?"

"You'll have it this afternoon," McPherson responded. Later that morning, she gathered the following data:

<u>Month</u>	<u>Patient Load</u>	<u>Administrative Costs</u>
January	1,400	\$13,900
February	500	7,000
March	400	6,000
April	1,000	10,000
May	1,300	11,900
June	900	9,200
July	1,100	10,200
August	300	4,100
September	700	9,400
October	1,200	11,100
November	600	8,300
December	1,500	16,100

McPherson does not believe the first year's widely fluctuating patient load will be experienced again in the future. She has estimated that the clinic's relevant range of monthly activity in the future will be 600 to 1,200 patients.

INSTRUCTIONS:

1. Use the high-low method to estimate the cost behavior for the clinic's administrative costs. Express the cost behavior in formula form ($Y = a + bX$).
2. Using your answer to Part 1, what is the variable cost per patient? What is the fixed cost?
3. Using your answer to Part 1, determine the predicted clinic's administrative cost during a month when 800 patients visit the clinic.