**21-2A** – We Care is an outpatient surgical clinic that was profitable for many years, but Medicare has cut its reimbursements by as much as 50%. As a result, the clinic wants to better understand its costs. It decides to prepare an activity-based cost analysis, including an estimate of the average cost of both general surgery and orthopedic surgery. The clinic’s three cost centers and their cost drivers follow.

|  |  |  |  |
| --- | --- | --- | --- |
| **Cost Center** | **Cost** | **Cost Driver** | **Driver Quantity** |
| Professional salaries | $1,500,000 | Professional hours | 10,000 |
| Patient services and supplies | 25,000 | Number of patients | 500 |
| Building cost | 150,000 | Square feet | 1,500 |

The two main surgical units and their related data follow.

|  |  |  |  |
| --- | --- | --- | --- |
| **Service** | **Hours** | **Square Feet\*** | **Patients** |
| General surgery | 2,500 | 500 | 400 |
| Orthopedic surgery | 7,500 | 1,000 | 100 |

**\*Orthopedic surgery requires more space for patients, supplies, and equipment**

**Required**

1. **Compute the cost per cost driver for each of the three cost centers.**
2. **Use the results from part 1 to allocate costs from each of the three cost centers to both the general surgery and the orthopedic surgery units. Compute total cost and average cost per patient for both the general surgery and the orthopedic surgery units.**

**Analysis Component**

1. **Without providing computations, would the average cost of general surgery be higher or lower is all center costs were allocated based on the number of patients? Explain.**