

Developing an Operating Budget

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Abstract

Budgeting is a key element of health care organizations' strategic planning to project the anticipated income and expenditures. These budget types include operating, capital, and project budgets, depending on what suits the organization. Operating Budgets are short-term revenues and expenditures projections; Capital Budgets are assets acquisition analysis, while Project Budgets estimate total project cost. The purpose of this paper is to explain the significance of a budget in the planning process and distinguish these budget types using online scholarly books and journals. It also facilitates the formation of a medical-surgical division through the data generated during the organizational board meeting.

Introduction

Sustaining a company's current activities requires careful management and allocation of available resources. Specifically, this refers to healthcare organizations that require effective process management and pleasant working environments. These entities use different sorts of budgets to meet diverse objectives: Revenue and expenses can be planned for in advance with an operational budget, significant investments can be made with a capital budget, and the costs of a particular project can be estimated with a project budget. Provisions in the budget enable for precise distribution of resources and the construction of a purchasing plan, thereby achieving the established goals and objectives. The budgeting process is crucial to the planning process of any organization. In addition to helping a company spot its vulnerabilities, they provide a system of internal control. Depending on the sort of budget and its objective, budgets can be helpful tools for any organization.

Why Budgets Are Important

According to Malenko (2019), budgets are essentially the allocation of funds based on income and expenses. They play a crucial role in financial management inside any organization, serving as pivotal tools in the planning and control process. Budgets aid in resource allocations within the organization. Companies can make the most effective use of their limited resources by defining their financial goals precisely and imposing stringent constraints on how those goals can be attained (Finkler et al.,2022). For example, a marketing budget can delineate the number of resources that will be allocated to advertising, product development, and distribution. Additionally, budgets help with performance measurement, which involves contrasting actual revenue with anticipated targets against such budgeted expenditures (Barr& McClellan,2018). Since actual sales were increasing by just 5% instead

of the 10% predicted, the reasons for this discrepancy must be investigated.

In addition, budgets aid in cost control by outlining spending limits for specific categories. As a result, the likelihood of a situation developing in which costs exceed the resources available to the organization is reduced (Barr& McClellan,2018). The operational budget, for instance, places constraints on the amount that can be spent on things like labor and supplies. Furthermore, budgets assist companies in determining what financial resources they will require in terms of revenue, expenditure, and investment targets, thereby providing a direction for future operations (Finkler et al.,2022). A yearly budget might, for instance, detail expected revenue and the estimated costs of achieving that revenue.

Difference Between Operating, Project, and capital Budget

Aspect	Operating Budget	Capital Budget	Project Budget
Purpose	It aids in managing and controlling day-to-day operational expenditures and income.	It is mainly used to evaluate long-term projects and investments that take more than one financial year (Malenko,2019).	It's a tool for forecasting how much each project stage will set you back (Hilton & Platt,2020).
Time Horizon	Typically, it covers a short-term period that is one fiscal year (Hilton & Platt,2020).	Investment horizons of three years or more are the norm.	Project-specific spending plan that is only in place for the time being.
Nature of expenses	Primarily includes recurring, regular expenses like salaries, utilities, and supplies.	Includes capital expenditures for capital goods like machines, buildings, and technological investments which are relatively one - time in nature(Malenko,2019).	Customized for the unique requirements and expenses of a project such as labor, materials, or machinery.
Examples	Salaries, rent, utilities, marketing expenses, and general day-to-day operational costs.	Acquisition of a manufacturing facility, renovating an office complex or purchasing a fleet of cars.	The new office building, a new product, and a new marketing for a product launch (Hilton & Platt,2020).

Provide Correct Revenue & Expenses

In the board meeting involving the management, the company faced a decline in revenue: by mid-year the amount earned reaches to \$23 million and this is way below the projected figures that stand at \$25 million. Since we also believe that the variance will be the same at the close of the year, the expected revenue variance is deducted to ascertain the actual earnings. Furthermore, the deduction of negative variance or adding up of positive deviation gives us accurate expenses, which may be subtracted from the overall budget. This amendment is essential since it shows that there is an excess of a positive variance at the half-year stage.

Estimate the Correct Revenue & Expenses

Regarding a suggestion to reduce expenses for our sales have fallen by 5%, we decreased costs from the current budget by five percent. For instance, if their actual spending was \$23,657,632, then next year's budget should be around \$24,474,740, which was computed as $(\$23,657,632 - (5\% \text{ multiplied}))$, we also took patient revenues being flat to last year's actual figures.

Balanced Budget for the Next Fiscal Year

The organization will be able to make progress toward its goals and objectives with the help of a well-balanced system (Bielefeld & Schneider, 2014). Patient care, for instance, would suffer if there wasn't enough money set aside to buy necessary medical supplies. However, if a reliable prediction is available, resources can be deployed to ensure the organization's operations are sustained. A budget also helps management determine which demands to be met first and which may wait till later. The government will, for instance, only buy the absolute necessities in light of the 5% cut. The budget will shed light on the organization's flaws and provide opportunities to strengthen internal controls.

Conclusion

The bottom line is that several budget categories matter a great deal in the strategic making and, if well used, could improve tremendously on the operations of the organization. Hence, this helps in the identification of various resources and supports purchasing strategies. Additionally, proper management is observed. The help of operating budgets projects daily activities; companies also use them to decide on the purchase of assets, and there are cost estimates for a total project. Using a budget appropriately, an organization can realize its endpoints, indicate areas that need to be improved upon, adjust the same, identify what is urgent, and, above all, have proper management of expenditure and income.

References

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