BHA-FPX4008 Assessment 1: Developing an Operating Budget

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Developing an Operating Budget

An operating budget is a financial projection of a company's expenses and revenue over a period. Companies use operating budgets to plan their operations, which are expected to run over a specified period (Khan, 2019). The critical components of an operating budget include non-cash expenses, fixed costs, variable costs, production, direct materials, labor, overhead costs, and revenues. The primary purpose of the operating budget is to establish accountability, manage expenses, and project future expenses.

Why Budgets Are Important

Budgets are critical because they help organizations/governments/individuals effectively plan their daily activities. In particular, budgets help users track their day-to-day expenses while projecting future expenses (Hastings, 2021). Businesses operate on pre-determined start-ups and operating money. Operating budgets help organizations ensure that they are operating within their financial budgets. Besides, operating budgets help firms maintain financial accountability (Batra & Verma, 2017). Firms can practice financial prudence through budgets, which is the careful management of available funds.

Difference between Operating, Project and Capital Budget

Operating budget refer to finances used by companies to cover their day-to-day operations. Capital budgets are budgets for finances used for long-term investments or projects (Schmidgall, & Kim, 2018). A project is an investment/endeavor which is temporary and requires financial investment to operate. In operating budget, companies create an estimated budget by estimating the value of revenues versus the cost of expenses. Operating costs include raw materials, utilities, labor, and raw materials. Firms use capital budgeting to plan and finance major projects such as the purchase of new equipment or building a new plant.

Provide Correct Revenue & Expenses

When a company wants to calculate its revenue, it deducts its expenses from the cost of goods sold. A firm that records more revenue than its expenses has a positive net income. Conversely, when a company's total expenses exceed its revenues, it has negative net income. From the Med/Surg department, the total of the current year's actual is $ 182, 228,324. The total of next year's budget is 177,700, 500.

Estimate the Correct Revenue & Expenses

The revenue estimation is done by subtracting the Cost of Goods Sold from the expenses. Conversely, revenues- expenses= Net profit, Operating Expenses = Sales Commission + Advertising Expenses + Salaries + Depreciation + Rent + Utilities. Based on this formula, the correct revenue is 68,680,597. The correct expenses from the budget is 45,557,081

Balanced Budget for the Next Fiscal Year

For next year's fiscal budget, identify the sum of all costs for which you or the company will be liable over each time frame. Sort each expenditure based on the time for which it is a concern, then classify each cost as fixed or variable.

Conclusion

An operating budget is a critical tool used by companies/individuals/governments to plan effectively for their day-to-day operations. Operating budgets help firms to achieve financial accountability through prudent spending of funds. Besides, firms use operating budgets to make future financial projections.

References

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