Developing an Operating Budget

Developing an operating budget involves forecasting revenue and costs. It is a useful tool to manage expenses and achieve your company's goals.

An operating budget focuses on daily production-related custom writing paper such as raw materials, direct labor and overhead. It does not include capital expenses or long-term loans; these are covered by a capital budget.

Sales Budget

The sales budget is the estimate of how much revenue the company will make during a designated time period. This calculation is usually based on the previous financial data, market trends, and customer intentions. It also includes an estimation of cash sales and credit sales. Credit sales are recorded as income on the business financial statements but don't push cash into the bank, whereas cash sales directly affect the ability to pay overhead costs.

The sales budget typically includes variable costs such as piece rate and direct labor, raw materials, production supplies, sales commissions, and monthly fees on credit card accounts. It also includes fixed expenses such as rent, insurance, and equipment rentals. The final step in the sales budget is to calculate your gross profit margin, which is the estimated amount of money that will be left over after all of the bha fpx 4008 assessment 1 developing an operating budget and variable costs are deducted from the projected sales. This number should be compared to your actual costs and income at the end of each time period to determine whether your predictions were accurate.

Variable Costs

Developing accurate budgets for your business requires a clear understanding of variable costs and how they compare to fixed costs. Variable expenses are those that rise or fall in direct proportion to the volume of products your business produces.

These costs may include raw materials such as wood and graphite for pencils; shipping/freight charges to ship finished goods to customers; and commissions paid to sales representatives based on performance. In contrast, fixed costs are those that remain constant regardless of production levels. Examples of fixed costs are electricity, insurance, depreciation and permanent salary and wage expenses.

Identifying and understanding the difference between variable and fixed costs is a critical step in making sound business decisions and establishing a profitable NURS FPX 6212 Assessment 1. In general, your company should aim to increase revenue faster than it increases expenses so that the operating leverage of your business is positive. A higher operating leverage allows your company to make a greater profit, even with lower margins.

Fixed Costs

Fixed costs are expenses that remain the same each month, regardless of your

company's sales or production levels. These include such overhead expenses as rent, utility bills and employee salaries.

Depending on the industry, other fixed costs may include depreciation or amortization and debt repayments. Typically, these are listed in the non-operating expense section of your profit and loss statement.

To determine your total fixed cost per unit, add up all of your business's recurring monthly fixed costs and divide by the number of units you produce. This will give you the amount of your per-unit cost, which can then be factored into your pricing for products or services. This is why some companies with high-demand goods or services can charge lower prices than their competitors. High per-unit NR 305 Week 6 costs serve as natural barriers to new entrants in an industry, while eliminating small competitors that cannot match the price point. Generally, this is a good thing for your bottom line.

General & Administrative Expenses

Often called overhead expenses, general and administrative costs are those that are necessary for the business to function but don't directly relate to sales or production. This includes fixed costs like rent, liability insurance and staff salaries. Identifying these known costs gives you the opportunity to project future budgets that are accurate.

SG&A can be broken down into two categories; direct and indirect. Direct selling expenses are incurred when a product is sold to the customer. Indirect selling expenses happen before a sale is made, such as advertising or travel costs.

Projecting future expenses helps you to avoid unnecessary spending. For example, if you underestimated your last year's or quarter's actual expenses, you can write a new budget that more closely aligns with the needs of your company. Similarly, if you overestimated expenses, you can reduce the cost of some of your line items and build up financial reserves. The ability to analyze and control costs through the process of an operating budget can help you to achieve your sales goals.