

Health care finance

Finance



Finance and Accounting Cost measurement is as essential function in any organization, which aims at its success. This is because if costs are not measured, most decisions will be difficult to be made. Working out the cost of services as well as goods is a significant part in decision-making, which all managers should achieve. A variance is a term used to refer to the difference between the expected results and the actual results. Variance analysis is, therefore, the process through which the difference between actual results and standard results is analyzed. When the actual results are preferable than the expected results, the variable is favorable (F). on the other hand, if the actual results are not as good as the expected results, the variance is an adverse (A) (Murphy and Wood 275).

There are two kinds of budgets from the accounting point of view: capital budgets and operating budgets. Budgets are characterized by such programs as operations, maintenance, security, and environmental among others. Operating budget is a term used to refer instances when informal conversations within an organization turn to the budget. Facility managers usually have more control over operating budgets as compared to the capital budget. They symbolize out-of-pocket costs that organizations try to avoid (Murphy and Wood 277). They can be either short-term or mid-term. Capital budgets, on the other hand, are comparatively static. They involve less scrutiny, longer terms, and fewer cost types. They are sensitive to the management of operating budgets.

Cost measurement has been found very effective in the maintenance of operating and capital budgets through the variance analysis. Effective and efficient budgeting in the control of operating costs is an essential part in the attempt to increase the value of a business over time. Operating budgeting <https://assignbuster.com/health-care-finance/>

should, therefore, analyze strategies for capital budgeting and strive to increase efficiency (Warren, et. al 31). For this to be accomplished there is a need for integrated budget planning. The budgeting process and business planning should offer this opportunity. Cost measurement has, however, been the most effective manner through which this efficiency is achieved. There are two major methods of measuring costs in the attempt to maintain operating and capital budgets effectively. One of these methods is the total absorption costing method (Warren, et. al 31). This involves making an attempt to achieve the full cost in the production of a single unit of an item by making an account of all production costs both fixed and variable costs. Fixed costs are allocated using the fixed overhead rate (FOAR), which is then worked out. Another method used in cost measuring is the re-apportioning fixed cost. Some fixed costs such as canteen costs requires to be re-apportioned to the departments that used the services. Some of the methods that can be used in doing this include direct re-apportionment, algebraic reapportionment, and repeated reapportionment (Warren, et. al 32). The direct method reapportionment is usually the fastest of the three. The difference in result can be ignored since it is not significant. Several other methods can be used during cost measurement to maintain capital and operating budgets through variance analysis. Some of these methods include, marginal costing method, activity based costing, per machine hour, and per direct labor hour (Murphy and Wood 276). However, the first two have been found to be the most effective, hence mostly used.

Work cited

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