Challenges to financial planning and budgeting in health care

Business

Business Assignment Insert Insert Grade Insert Insert Challenges to financial planning and budgeting in health care Financial planning and budgeting is vital in all health care operations. It determines the organizations failure or success. Health care organizations are mainly meant to provide services to patients. Financial planning and budgeting depends on the patients. It depends on factors such as type of patient; whether in patient or out patient, type of service sought by the patient, patient's insurance arrangement, duration of patient stay and number of visits per physician. It is from the patient volumes that resources will be allocated. However, the greatest challenge is the uncertain patient volumes. When planning and budgeting you cannot do so with certain number of patients. This is because these volumes are variable each year. It is very hard to predict the volume of patients that will be handled by the institution in any particular year. This challenge can be solved by correct choice of healthcare planning, budgeting and forecasting system. This is done through investment in technology. These technologies ensure best practices in the planning, budgeting, and forecasting leading to timely forecasts, accurate plans and more enhanced decision making. These technologies save on time, enhance accuracy in planning and budgeting, and foster best financial planning and budgeting practice. Moreover, it offers competitive advantages. The correct choice of technology is important. The chosen technology should be able to deliver consistent, timely, reliable, and flexible plans (IBM, 2009). It should also enhance the link between operational and financial plans and strategic objectives. It should be able to bring out key metrics necessary for decision making. It should also report on variance details for analysis. In addition, it should provide allowance for analysis and re-forecasting if need arises (Adaptive Planning, 2012). With such technology we would be able to bring out flexible financial budgets that will be able to cater for uncertain volume of customers. Fixed and Variable Costs Organizations expenses or costs are categorized as fixed and variable. Fixed costs are those costs that do not depend on the activity level of the organization. These are such expenses as rent, insurance, management salaries, and equipment leases. On the other hand, variable expenses are expenses that change with the organization activity level or volume. These vary directly with the production or sales volume of the organization. I would prefer to manage a fixed cost department because such costs do not change over time and therefore do not offer many challenges. Advantages and disadvantages of Fixed and Variable costs Fixed costs do not change with production of the organization; therefore, these costs are easy to account for. While the fixed costs do not vary with production output, increase in output leads to a reduction in per unit fixed cost. For example, if the cost of setting up a machine is fixed at $ 3000, if the company produces 1000 units then per unit cost will be $3, increase in production to 1500 units leads to reduction of per unit rate to $2. The fixed costs also remain constant for a given range of production hence they are easy to calculate. However, a disadvantage comes about when a company is operating below its production potential then per unit fixed costs normally increases. Most companies associate fixed costs with depreciation of assets. The reduction of this amount from the asset value reduces the firm’s net income and hence reducing its tax liability (Thomason, 2013). Variable costs, on the other hand, change with the production or sales volume of an organization. Therefore, these costs cannot easily be forecast as in the case of fixed costs. It makes it hard to calculate and account for variable costs. The variable costs unlike the fixed costs depend on the production or sales volume of an organization. If the production or sales are low, the fixed costs also reduce. This is an advantage because when production is low, the income of the organization is also normally low. The fixed costs become a disadvantage here because they will remain the same. A company has to pay for insurance of a machine that has broken down but will not fuel it. Insurance is a fixed cost while fuelling is a variable cost. Variable costs are the ones that determine the profitability of an organization. Hence, the variable costs are an important indicator of how the firm is performing. It is the variable costs that normally indicate if the fixed costs contribute to the firm profitability. The fixed costs can also enable us gauge the productivity of a new machine or technology. We can gauge what we input versus its output and hence determine its suitability. Despite the advantages and disadvantages of each type of cost, they are all important in the firm's processes and must be managed well in order for the firm to realize its production potential. All costs cannot be assumed to be fixed because this will overestimate the firm's costs while if all costs are assumed to be variable the firm's costs will be underestimated. References Adaptive Planning (2012). Adaptive Planning: Focus on Health Care. Retrieved May 30, 2013 from http://www. adaptiveplanning. co. uk/uploads/docs/datasheets/datasheet_healthcare_screen. pdf> IBM (2009). Choosing a Healthcare Planning, Budgeting and Forecasting System. Retrieved May 30, 2013 from < http://www-304. ibm.

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