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Prepare a Budget for a New Dentist Clinic

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Preface/ Executive Summary

The objective of this project was to

1. Find out and ascertain the different aspects related with budgeting and its uses.
2. Make and create an estimate budget for starting a new dental clinic for a student who has recently finished her BDS

We have then presented and tabulated the data in the project as required.

CONCEPT OF BUDGETING:

One of the primary objects of cost accounting is to provide information to business management for planning and control. Budgeting act as a toll of both planning and control. Budgeting is a formal process of financial planning using estimated and accounting data.

DEFINITION OF THE BUDGET:

The Institute of Cost and Management. Accounts (UK) defines

A budget as a “a financial and/or quantities statement, prepaid and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given object. It may include income, expenditure and the payment of capital”.

RELATION BETWEEN BUDGETING AND FORECASTING:

“Budgeting” and “forecasting” are used interchangeably According to the national association of accountants (USA)”forecasting is a process of predicating or estimating a future happening”, Forecasting is an essential part of the budgeting process. Forecasting is estimating future events and their effects on the budget. Forecasting comes to an end after mere estimating. Budgeting is a process of preparing budgets and further control aspects are involved in its procedure.

ESSENTIALS OF BUDGET:

- It is prepared in advance based on a future plan of action.
- It relates to a future period and based on objective to be attained.
- It is a statement expressed in monetary and for physical units prepared for the implementation of policy formulated by the management.

CONTROL AND PERFORMANCE EVALUATION:

Budgeting entries into control at three points:

- When a budgeted is being formulated, departments analyze their plans for the future and submit estimates as per their requirements, justifying each of their demands by demonstrating a need.
- After budgets of different departments have been reviewed and approved they become targets that set desirable limits on spending.
- At the end of the budget period, a comparison of actual expenditure with budget expenditure is made as a means of judging performance and fixing responsibility for deviations.

ADVANTAGES OF BUDGETING:

- Budgeting plays an important role in the effective use of resources and achieving overall organizational goals.
- Budgeting compels and motivates management to make an early and timely study of its problem.
- budgeting provides a valuable means of controlling income and expenditure of a business as it is a “plan for spreading”
- Budgeting provides a tool through which managerial policies and goals are periodically evaluated, tested and established as a guidelines for the entire organization.
- Budgeting help in directing capital and others resources into the most profitable channels.
- Budgeting coordinates and correlates all business activities.
- The use of budgeting in an organization develops an attitude of “Cost Consciousness”, stimulates the effective use of resources, and creates an environment of profit-mindedness throughout the organization.
- “The uppermost point is that budgets provide a discipline that brings planning to the fore front as a key managerial responsibility”.
- Budgeting encourage productive competition.

CLASSIFICATION OF BUDGETS:

A. According to time:

- Long term budgets: A budget is designed for a period of 5 to 10yrs.
- Short term budgets: A budget is a generally prepared for a period of Not exceeding 5 years
- Current Budgets: The budgeted is prepared for a month or a quarter.

B. According to flexibility

- Fixed budget: A budget prepared on the basis of fixed or a standard level of activity. It does not change with respect to level of activity.
- Flexible budget: A budget is prepared depend upon the level of the
- Activity.

OPERATING AND FUNCTIONAL BUDGETS:

1) Sales budget:

The most important budget, which all other budgets are contingent upon, is the sales budget. All budgets, such as production budget, selling & distribution budget & other all affected by the sales budgeted & are depended upon the revenue derived from sales.

Forecasting sales:

The three main factors that should be considered by management in forecasting sales.

- 1) Information concerning past performance.
- 2) Information about present condition with in the individual company & in each sales territory.
- 3) Data concerning the industry & generally business.

2) Production budget:

A production budget is stated in physical units. Essentially the production budget is the sales budget adjusted for inventory changes as follows.

$$\text{Units produced} = \text{Budgeted Sales} + (\text{Desired Closing Inventory of Finished Goods} - \text{Beginning Inventory of Finished Goods.})$$

3) Production cost budget:

A production cost budgeted summaries the materials budget, labor budgeted, the factory budget, and may be expressed and analyzed by departments and or products. It is also known as manufacturing budget.

4) Direct material budget:

This budget specifies the cost of direct materials used and the Cost of the direct materials purchased.

Use of direct material budget

1. It helps the purchasing departments to prepare a schedule to ensure Delivery of material when needed.
2. It helps in fixing minimum and maximum levels of inventories in stores department.

5) Direct labor budget:

The labor budget estimates the labor, adequate in number and grades, to enable the production budget to be achieved. It is generally preferable to prepare a separate direct labor budget and to include indirect labor in the factory overhead budget.

6) Factory overhead budget:

This budget is prepared on the basis of chart of accounts which reflects different expenses accounts & which properly classified expenses accounts and details the cost centers or departments factory overhead budgeted where in overhead costs have been classified in to fixed and variable components.

a) Inventory budget:

An inventory budget can be prepared to find out the values of direct materials & finished goods inventory.

b) Selling expenses budget:

It is also known as the marketing expenses budget. The selling cost budget is made up of a number of cost items, some of which are fixed and some variable. Fixed expenses are

salaries and depreciation; the principal variable expenses are commission, travel advertising and bad debts.

c) **Administrative expenses budget**

The Administrative expenses budget covers the administrative costs for non-manufacturing business activities. The administrative expenses budget contains expenses like director's remunerations, legal charges, audit fees, salaries, rent office expenses, interest, property tax, put etc.

BUDGETED INCOME STATEMENT

A budgeted income statement summarizes all the individual Budgets i.e. sales budgeted, cost of the goods sold budget, selling budget, and administrative expenses budget. This budget determines income before taxes (If the tax rate is available, net income after taxes can also be computed). A system of budgetary control installation in an organization is very much beneficial which may result in proper planning & control of activities. It ultimately results in minimizing costs and maximizing profits.

If the company wants to prepare the budgets for future period of time, it is very much essential that company have to consider the past performance. Thus the past performance is treated as vital basis for the future period. Suppose in case of past performance is not available then the company has to follow the following process.

A. DETERMINATION OF THE OBJECTIVES:

The installation of budgetary control system needs to have proper objective i.e. for what purposes it has been installed. The objective may be

- Minimizing costs or maximizing profits.
- Co-ordination of activities of different departments.
- Controlling the management functions.

B. ORGANIZATION FOR BUDGETING:

Under this process the authorities and responsibilities of each executive are clearly stated. i.e. delegation of work means dividing the work between departmental heads.

C. BUDGET MANUAL:

The budget manual is a written document, which specifies the objective of the budgeting organization & procedures.

SOME IMPORTANT MATTERS COVERED IN A BUDGET MANUAL

A statement related to objectives of the organization & how they can be achieved through budgetary control.

- Reports, statements, forms & other records to be maintained.
- Timetables for all stages of budgeting.
- A statement related to functions and responsibilities of each executive.
- There should be proper classification of accounts, which are lost, revenues and other financial amounts are to be classified with their respective nature.

D. RESPONSIBILITY FOR BUDGETING:

1. Budget controller: The chief executive is ultimately responsible for the budget program and past of work designated as budget controller. The budget controller should have knowledge of technical skill of the business and report to chief executive.

2. Budget committee: Budget committers are framed for true delegation of authority and responsibilities. The work should be divided under different heads i.e. Sales, production, and finance etc. The duty of budget committee to submit, discuss and finally approve of the budgeted big figures.

E. FIXATION OF THE BUDGETED PERIOD:

Budgeted period:

“The period for which a budget is prepared & employed”.

The budget period depend upon:

- The nature of the business.
- The control techniques.

BUDGETING PROCEDURE

The procedure followed while designing and operating a budgetary control system depends upon the nature of the business.

THE PROCEDURE AS FOLLOWS:

1. Determination of key factor:

Key factor is that factor the extent of whose influence must first be assessed in order to ensure that functioned budgets are reasonably capable of fulfillment.

Ex: Sales, production, purchases, cash etc.

Key factor must be identified & diagnosed. Budget are meaning & unless key factor identified.

2. Making of forecasts:

Forecast is nothing but estimation of probabilities for a given period. Forecasts are made regarding sales, production cost and financial requirements of the business.

3. Consideration of alternative combinations of forecasts:

Alternative combination of forecasts is considered for efficient of overall plan with the motive to maximum profits.

4. Preparation of budgets:

After finalization of forecasts the budgets will be prepared.

5. Choice between Fixed & Flexible budgets:

A fixed budget is based on a fixed volume of activity. It is ineffective & meaningless because of actual capacity utilization may vary from month to month or quarter to quarter.

A flexible budget is prepared for changing levels of activity. The flexible budget considers the fixed and the variable costs separately.

1. Start with a canned budget worksheet.
2. Go through your check book or bills for the last two to three months and add and delete categories from the worksheet to fit your expenditures.
3. Think about your hobbies and your habits and be sure to add categories for these expenses.
4. Go through your pay stubs and calculate your average monthly gross pay.
5. Do the same for any interest income, dividends, bonuses, or other miscellaneous income.
6. For each expense category, try to determine a budget amount that realistically reflects your actual expenses while setting targeted spending levels that will enable you to save money.
7. Once you're comfortable with your expense categories and budgeted amounts, enter expenditures from your checkbook from the last month.
8. Keep track of cash expenditures throughout the month and total and categorize these at the end of each month.
9. Subtotal the income and expense categories.
10. Subtract the total expenses from the total income to arrive at your net income.
11. If the number is negative, your expenses are greater than your income. Your situation can probably be greatly improved by changing your spending habits.
12. If you have a positive net income, transfer most of it to a savings or investment account at the end of each month. Extra cash left in a regular checking account has a way of getting spent.

13. After you've tracked your actual spending for a month or two, analyze your spending to identify where you can comfortably make cuts.

14. Once you've got the budgeting process in place, take an in-depth look at your largest spending categories, brainstorm about ways to reduce spending in specific categories, and set realistic goals.

Tips:

1. Don't try to fit your expenses into somebody else's budget categories. Tailor the categories to fit your own situation.

2. Make your categories detailed enough to provide useful information, but not so detailed that you become bogged down in trivial details.

3. Think of your budget as a tool to help you get out of debt and save money, not as a financial diet.

DENTAL CLINIC

When deciding to set up an independent dental practice the basic requirements are knowledge, equipment, instruments and a large number of patients. To fulfill these, you have to find the right location for your clinic e.g. near residences or schools.

To succeed in independent practice, take note of the three factors in selecting the right location:

- Personal Needs
- Economic Potential
- Professional Desirability

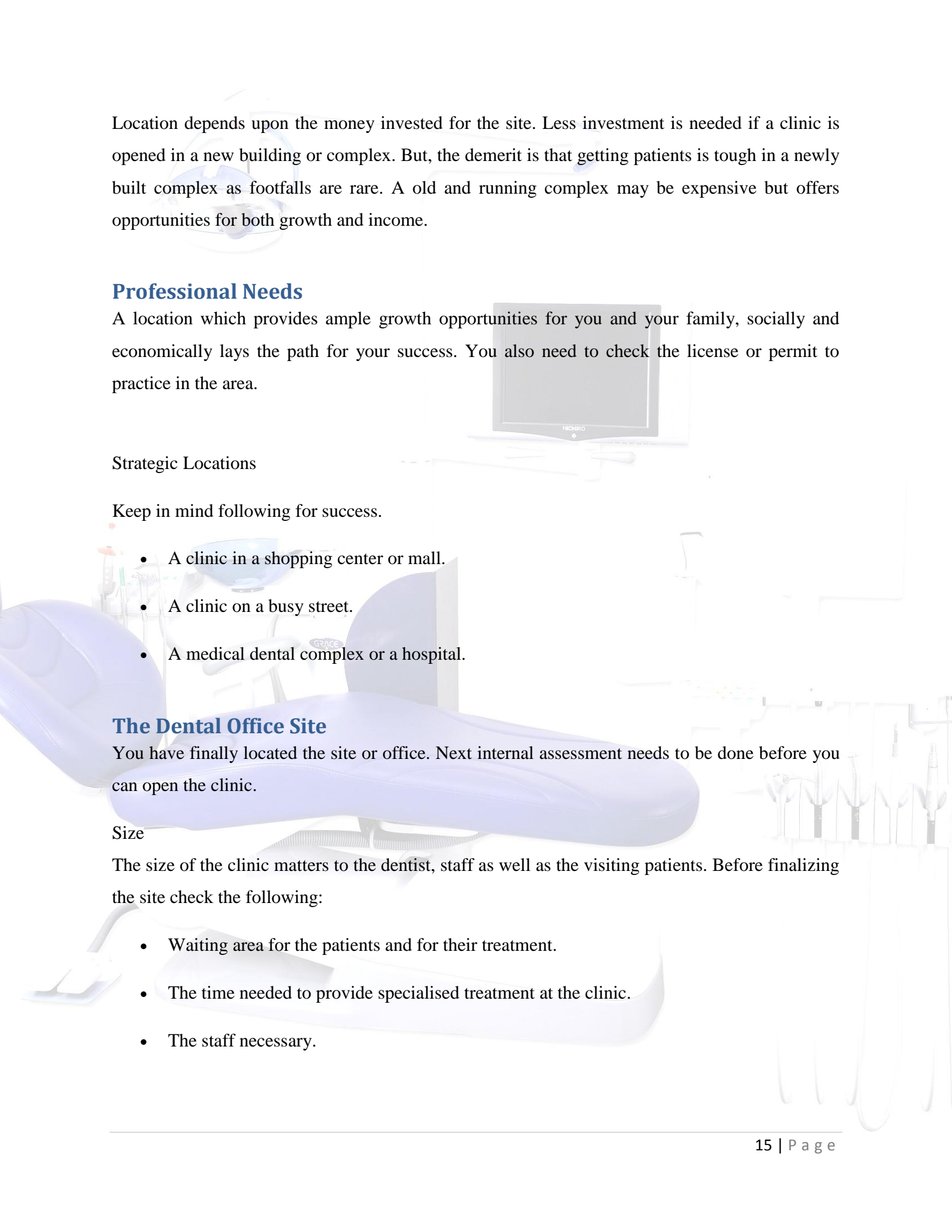
Personal Needs

Vicinity

- Anticipate the lifestyle you intend to live after a decade or two. Analyze whether it will be possible to practice in the aforesaid locality.
- Observe the communities living in the localities around. Your professional success depends on how acceptable you are to the locals.
- Opportunities for getting patient significantly increase, if recreational and educational centers are present in the vicinity of your clinic.
- An urban area offers more opportunities to succeed than a location in rural area.
- Places of worship offer a fertile ground for network and social contacts.
- Select a location with weather suitable to you and your family.

Economic Needs

Observe the demand for a dentist in an area. A dental clinic with a retired or aged dentist will need for a new dentist in the long run. If you are planning to set up a clinic, large financial investments are required in acquiring the premise.



Location depends upon the money invested for the site. Less investment is needed if a clinic is opened in a new building or complex. But, the demerit is that getting patients is tough in a newly built complex as footfalls are rare. A old and running complex may be expensive but offers opportunities for both growth and income.

Professional Needs

A location which provides ample growth opportunities for you and your family, socially and economically lays the path for your success. You also need to check the license or permit to practice in the area.

Strategic Locations

Keep in mind following for success.

- A clinic in a shopping center or mall.
- A clinic on a busy street.
- A medical dental complex or a hospital.

The Dental Office Site

You have finally located the site or office. Next internal assessment needs to be done before you can open the clinic.

Size

The size of the clinic matters to the dentist, staff as well as the visiting patients. Before finalizing the site check the following:

- Waiting area for the patients and for their treatment.
- The time needed to provide specialised treatment at the clinic.
- The staff necessary.

Interior Design

It is very vital to design your clinic appropriately. There is no limit towards making it more lavish and fancy. Attention must be given to ventilation, air quality, noise pollution, cabinet for dental equipment, etc.

It has become a necessity to make maximum use of the available area and space with the cost of area sky rocketing in urban cities and towns. Hire an interior designer specialized in designing dental offices to make the most of the purchased area. If you have a limited budget, convey it your interior designer. you will receive the best suggestions for cost-effective décor for the clinic.

Lighting

For a dentist lighting is crucial for every aspect of treatment, from a mere dental check-up to complicated oral surgeries. The use of proper lights boosts the chances of successful treatments.

Thus, it is the foremost criteria to be fulfilled while designing a clinic.

Designers sometimes suggest lights that create an ambience of a relaxed, stress free environment in the clinic. This plays a pivotal role in facilitating patients getting over their fears.

Flooring

There are many choices for your flooring from wood, vinyl tiles, carpet, granite, marble, etc. Select the one that is most suitable to the climatic conditions in the region. The flooring surface not only enhances the look of the clinic but also contributes in creating a comfortable feeling.

Walls

They can be painted or covered with wallpapers. The design chosen should make the rooms look more spacious and comfortable. Painted walls are cost-effective and easy to clean.

Parking

The parking space in the vicinity of the clinic adds to the convenience both for the dentist and your patients.



Designing the Clinic

Dental clinics in India have a waiting area or the reception and the treatment room. Some dentist spend on innovative designs to create a pleasing environment for the patients while others invest in high tech dental equipment.

Designing Considerations

To set up a new clinic from start requires layout of the basic infrastructure. A few points to be considered before designing the clinic:

- Number of staff to be hired.
- The area of treatment room.
- Growth potential in the locality.
- Capacity of the waiting area to accomodate patients.
- Types of dental equipments used for various treatments.

Reception Area

It is the lobby where patients wait for their check up or treatment. Every clinic has a reception area. It's set up and design impresses the patients about the quality of treatments offered. The lobby is made luxurious, stress-free and comfortable for the visitor with a TV set, music systems, subtle lighting, juice bars, etc. to attract more patients.

Your Office Staff

Delegating and managing staff effectively is a part of an independent dental practice. The first step is to decide on the number of staff required for the clinic which depends on clinic size and specialisation offered. In general a receptionist, a secretary and a dental assistant are required in a dental clinic. Some dentists hire one or two employees and train them to take up two jobs or more.

Prepare a list of the duties each staff needs to accomplish. It gives them a sense of purpose and ensures completion of the jobs in your absence.

Points to remember when you hire:

- Each member would complete the task in his or her own way.
- Accept the fact that they will make mistakes. Listen to their suggestions.
- Acknowledge that a task can be done in different ways.
- Set an example for team work confident.
- Make them feel
- Build their confidence.

Hiring

When you hire the staff, give significance to three crucial factors; compatibility, education and experience. Discuss and clarify issues such as salary, compensation, benefits if any, work timings, etc. in detail and only then hire the applicant.

Review their performance and compensate them with incentives at regular intervals. Address their issues from a neutral point of view.

Interviewing

During the interview try to get the maximum information about the applicant like:

- Reasons for leaving the previous job.
- Experience of the individual.
- Ability and willingness of the individual to take any other assigned tasks.
- Appearance of the applicant.
- The medium of communication of the applicant.



Training

Hiring experienced staff is not a feasible option for those initiating independent practice. Hire freshers and train them as a viable option. It is very economical and offers an opportunity to evaluate the employee, assess the employee's strengths, weaknesses and overall performance.

Remuneration

Salary of an employee would depend on the work, the economy in the region and the quality of service you intend to offer to your patients. The higher the salary you provide the more competent workforce you will possess.

Research and find out the comparative salary structure of employees in other dental institutions.

Performance

Review each employee at regular intervals. Performance appraisals, incentives, benefits and salary rise. These factors contribute in building faith and goodwill amongst the employees.

Increasing Staff

You may start your practice with one or two employees. But as your practice flourishes you may require more assistants at your disposal because if you overload the existing employees or yourself with too many jobs, it will affect the productivity of your practice.

How to go about?

Setting up a practice takes a lot of efforts. Another option is to buy an existing well set up clinic where you can also inherit some of the existing patients.

Where To Look For

There are various resources that provide information on practices available for sale like dental colleges, associations, professional journals, dental dealers and practice brokers. With the advent

of internet and search engines you also have a wider option of searching for appropriate sellers or vendors dealing with practices.

Evaluate the Practice

Check on the following few facts before buying:

- Is the practice active and flourishing?
- The financial status of the clinic in the last three years.
- The reputation of the clinic.
- The difference in the net and gross practice income.
- The average fees charged from patients.
- How the transition of records would be.

Market Value

Next, prepare to negotiate on the purchase value of the practice. Assess the market price in the locality. Add to it the cost of the physical assets such as the dental office equipment and furniture in the clinic. You may add to the cost the price for goodwill created by the existing dentist. As you will inherit some patients on his behalf.

The purchase value would definitely be higher than building up an entire independent dental practice. It is for the individual to decide which one would be worth investing in. Associate on Contract Basis (Associate independent contractor)

A dentist who borrows facilities and equipment from another party but practices independently is an Associate independent contractor. The individual pays from his pocket for the usage of the amenities. At the same time he enjoys the rights to change the working hours, fees, treatment planning, etc.

Such an associate is not entitled to any employee benefits or retirement policies of any kind. In short he is a self-employed individual on contract. He has to take care of financial and organisational responsibilities.

It is crucial for an individual to prepare a legal agreement document while becoming an associate independent contractor. Every condition needs to be mentioned in detail. One of the most vital conditions is maintenance of patients' records. The associate can vouch for retaining the copies of the records, so that he is not at complete loss in case of termination of contract. The contracts between independent practitioners are of two types:

1. Time Sharing
2. Solo Group

Time Sharing Contract

This involves sharing of time, space and equipment by two or more dentists. The dentists would practice independently at different timings, though occupying the common space. Issues on equipment purchase and maintenance need clarification before preparing the contract.

Solo Group Contract

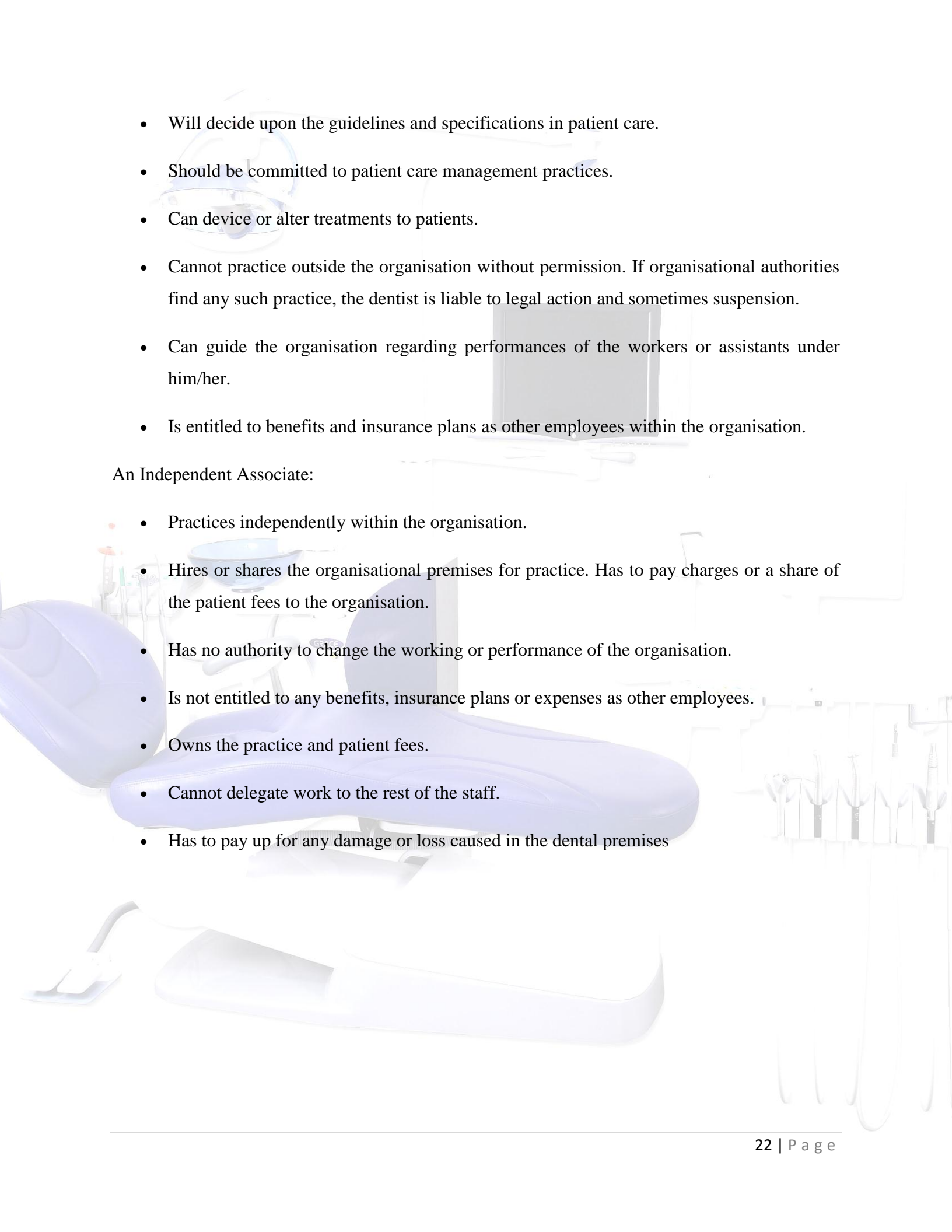
The dentists involved in this contract share facilities, equipment, supply and maintenance expenses, etc. Each member needs to discuss and mention his rights, duties and obligations in the contract to avoid any misconceptions at a later stage.

Considerations

The following are consideration to become:

An Employee Associate:

- Is involved in purchase of instruments, equipments, repair and maintenance work, etc. necessary to run the dental practice.
- Can put forth safety measures for everyone.

- 
- Will decide upon the guidelines and specifications in patient care.
 - Should be committed to patient care management practices.
 - Can device or alter treatments to patients.
 - Cannot practice outside the organisation without permission. If organisational authorities find any such practice, the dentist is liable to legal action and sometimes suspension.
 - Can guide the organisation regarding performances of the workers or assistants under him/her.
 - Is entitled to benefits and insurance plans as other employees within the organisation.

An Independent Associate:

- Practices independently within the organisation.
- Hires or shares the organisational premises for practice. Has to pay charges or a share of the patient fees to the organisation.
- Has no authority to change the working or performance of the organisation.
- Is not entitled to any benefits, insurance plans or expenses as other employees.
- Owns the practice and patient fees.
- Cannot delegate work to the rest of the staff.
- Has to pay up for any damage or loss caused in the dental premises

Credits

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