AKTUELL

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Budgeting and Controlling – Part 5

Liquidity Planning

The last two articles of the series Budgeting and Controlling have dealt with the structure of profit plan (BTV Aktuell 1/2000) and with the determination and interpretation of ratios based on the profit plan (BTV Aktuell 2/2000). In this part of the series Budgeting and Controlling the next step in the framework of budget compilation will be covered: liquidity or finance planning.

The two key elements of liquidity or finance planning are finance plan and budgeted balance sheet.

The finance plan immediately follows the profit plan. In the finance plan the liquidity or solvency resp of a company is planned. It is based on the planned operating result of the profit plan. In the framework of compiling the finance plan various procedures can be adhered to, but all have one goal in common: determination of liquidity of the enterprise.

The result of the finance plan is the planned liquidity surplus or liquidity deficit of the enterprise. This surplus of means of payment (cash) can be assessed or the accrued deficit of means of payment must be financed. Income from interest of the assessment or financing of interest paid has an impact on the profit plan. This additional deficit or income results in an improvement or a deterioration of the planned result in the profit plan. Basing on the result of the finance plan the profit plan must be revised in several items.

It is crucial for further planning steps that changed results of the revised profit plan create a new basis for the finance plan which leads to a mutual influence of profit plan and finance plan: the result of the profit plan is the basis for the finance plan. The result of the finance plan, namely liquidity deficit or surplus, influences the profit plan by way of the interest rate. Compilation of profit plan and finance plan must be determined iteratively in several calculating or planning steps to take all factors into account.

Based on the finance plan the next step determines the budgeted balance sheet of an enterprise. Basis for compiling the budgeted balance sheet is the opening balance sheet or at least a preliminary opening balance sheet. Every item of the finance plan changes the opening balance sheet to a budgeted balance sheet. When the finance plan has been appraised and at least a preliminary opening balance sheet exists, with the finance plan completed, all data and figures which lead from an opening balance sheet to a budgeted balance sheet are available.

Finance plan and budgeted balance sheet are often compiled simultaneously. The budgeted balance sheet takes the actual reporting date as starting point: the result is the budgeted balance sheet at the end of a business year. The finance plan covers a period of time: the result is the planned liquidity surplus or liquidity requirement in the course of the planned year.

Whereas the budgeted balance sheet always contains absolute values like an opening balance sheet or a closing balance sheet of an enterprise the finance plan only presents changing values. Every positive or negative figure in the finance plan shows a liquidity improvement or liquidity deterioration which results from this item in the planned year, in comparison to the beginning of the planned year.

As mentioned above, in the framework of compiling the finance plan, various procedures or systems can be adhered to which all have one goal in common: determination of liquidity or solvency of the enterprise. The following articles of the series Budgeting and Controlling will continue with finance or liquidity planning. The components and the structure of a finance plan will be presented in detail.

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