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Budgeting and Controlling – Part 6

The Finance Plan

The topic of the last article of the series Budgeting and Controlling (BTV-Aktuell 3/2000) was liquidity planning. The principal correlation between finance plan and budgeted balance sheet was described there, a detailed presentation of a finance plan, however, was not yet given. This article will describe the structure of a finance plan more exactly.

In the finance plan, basing on the planned operating result (profit or loss) from the profit plan the liquidity of an enterprise is planned. From a number of different procedures in the framework of compiling finance plans, one successful way of application in enterprises has been chosen for presentation.

The structure of the finance plan described, is made up in four steps which each assesses one particular sector of the enterprise from the point of view of liquidity.

The first part of this finance plan is called cash flow. In this step the result of the profit plan which forms the basis for the compilation of the finance plan is re-determined in cash flows. The planned profit or loss of the profit plan is corrected by the expense of the profit plan which is no cash-drain from the enterprise and by the income from the profit plan which forms no inpayment.

The way to review the enterprise changes: based on profit calculation which presents the result of the enterprise either as profit or loss, the viewpoint towards liquidity or solvency alters. All considerations focus on the planned liquidity surplus or liquidity deficit.

The second part of the finance plan described is called working capital. In the sector of working capital, the effects of changes in the short-term sector of the enterprise are covered, which have an impact on liquidity, eg changes in stock, receivables and liabilities.

The third step is called long-term sector and takes all changes into account which affect the solvency of an enterprise from a long-term point of view, eg investments and raising and redeeming of long-term liabilities.

The fourth and last part of the finance plan described, is called shareholder sector. It contains all effects of the specific activities of the shareholders on the solvency of the enterprise, namely deposits of the shareholders into the enterprise or withdrawals paid out to the shareholders from the enterprise.

The four parts Cash Flow, Working Capital, Long-term Sector and Shareholder Sector are finally summed up and lead to a total liquidity surplus or liquidity deficit of the enterprise. The surplus can be assessed, the deficit must be financed.

The next articles of the series Budgeting and Controlling will review the sectors of the finance plan which have been covered so far, in more detail: cash flow, working capital, long-term sector and shareholder sector.

About the author:
Prof. Werner Seebacher (PhD), Management Consultant, special field: corporate planning and controlling, lecturer at several universities.
Contact:
Seebacher Unternehmensberatung GmbH, Munich, Graz.
office@seebacher.com
www.seebacher.com

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