

## Budgeting and Controlling – Part 7 Components of a Finance Plan: Cash Flow

The last article of the series Budgeting and Controlling covered the structure of a finance plan (BTV-Aktuell 4/2000). In the finance plan, based on the planned operating result of the profit plan, (profit or loss), liquidity or solvency of an enterprise are planned. A highly application-oriented form of a finance plan was chosen from various forms. This structure, described in the last article, divides the finance plan into four sectors: cash flow, working capital, long-term sector and shareholder sector.

In this and the following articles of the series Budgeting and Controlling these sectors of the finance plan will be reviewed in more detail.

The first part of these calculations of a finance plan is called cash flow. The basis for cash flow is the result of the profit plan (profit or loss). It is corrected by expense or income items which were incorporated in the profit plan but are no cash flow from the enterprise or into the enterprise. Typically they include depreciations, provisions and reserves.

### Cash flow:

Corporate result  
after tax  
+ Depreciations  
+ Formation of provisions and reserves  
– Retransfer of provisions and reserves

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= Cash flow

According to the form of determining the finance plan as described here, the result of the cash flow shows the result of the profit plan after re-determining it in cash flows. The planned profit or loss of the profit plan is increased by expenses of the profit plan that decreased the result of the profit plan but were no withdrawal from the enterprise. Furthermore, the planned profit or loss of the profit plan is reduced by the income which has increased the result of the profit plan but was no deposit into the enterprise. The viewpoint changes: in the profit plan the operating result of the enterprise is presented as profit or loss, in the finance plan and thus in the determination of the cash flow, the actual cash flow is presented which results in a liquidity surplus or liquidity deficit of the enterprise.

When other methods of determining finance plans from the one described here are chosen, the term Cash Flow is also used for other sub-totals. To avoid misinterpretations it is of considerable importance to check the underlying figures of any method of determination exactly before interpreting the figure referring to cash flow.

The series Budgeting and Controlling will be continued with the description of further parts of the finance plan: working capital, long-term sector and shareholder sector.



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