BUDGETING AND CONTROLLING (PART 15)

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The Process of Budget Compilation
Step 4: Planning of Liquidity

In the application the process of budget compilation is marked by the following steps:

Step 1: Forecasting/budgetary prediciting
Step 2: Planning of fixed costs
Step 3: Planning of sales and contribution margin
Step 4: Planning of liquidity

The steps: forecasting (BTV-Aktuell 2/2002), planning of fixed costs (BTV-Aktuell 3/2002),and planning of sales and contribution margin (unternehmen 1/2003)have been dealt with in the previous articles of the series Budgeting and Controlling. The final article referring to budget compilation covers liquidity planning.

The goal of a comprehensive budget compilation is the determination of a complete budget of an enterprise consisting of profit plan, finance plan and budgeted balance sheet. Based on these three elements, the overall relationship of a profit-relevant and financial development of an enterprise is to be demonstrated.

The process of budget compilation, from the determination of forecasting over planning of fixed costs to planning of sales and contribution margin, so far, has led to a complete profit plan showing the basis for finance or liquidity planning resp.

In the framework of finance or liquidity planning resp, finance plan and budgeted balance sheet are compiled for the planned year based on an opening balance sheet or a preliminary opening balance sheet resp.

The finance plan in the presentation chosen here, consists of the components cash flow, working capital, long-term sector and shareholder sector.

The area cash flow can be compiled relatively easy as it only presents a transfer of the result from profit plan into cash flows. Expense and income items are corrected that have been taken into consideration in the profit plan but do not lead to any payments, they mainly consist of depreciations and provisions.

Far more comprehensive is the compilation of the second part of the finance plan, the planning of working capital. Above all in this area the changes in receivables, liabilities, stock and project inventories are planned. Furthermore, all changes affecting the short-term sector such as changes in the area of advance payments received and paid, must be accounted for.

The area Working Capital is mainly influenced by elements that have been taken into consideration in the profit plan, such as sales and variable costs. Sales and variable costs together with time allowed for payment or payment terms resp, affect the development of receivables and liabilities.

Investments as well as changes in the long-term loan-sector are taken into account in the long-term sector.

The shareholder sector however, accounts for deposits into the enterprise and withdrawals out of the enterprise, with stock corporations these are increases in capital or dividend payments.

Result of the finance plan is the planned liquidity deficit which must be financed or the planned liquidity surplus which can be assessed and which affects the profit plan through interest paid or income from interest.

When the finance plan has been completely compiled, based on an opening balance sheet or a preliminary opening balance sheet resp, it results automatically in the budgeted balance sheet for the planned business year. In a complete finance plan all data and figures are available that directly lead from an opening balance sheet to a budgeted balance sheet.

As an alternative to sequencing as described above, namely first compiling the finance plan and consequently developing the budgeted balance sheet in the framework of liquidity planning, in the application, finance plan and budgeted balance sheet are frequently compiled simultaneously.

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