

BUDGETING AND CONTROLLING (PART 16): THE PLANNING CYCLE



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The series Budgeting and Controlling has dealt with the components of a complete budget, economic relationships between these components and the procedure in the framework of budget compilation.

In this and the following articles the planning cycle of an enterprise shall be covered.

The planning cycle of an enterprise starts with budget compilation at the beginning of a planned year and is completed by the following steps in the course of it:

- by comparing actual data that became real to originally planned data,
- by extrapolations for the whole planned year based on comparison of planned/actual data and
- by a revised forecast for the remaining period of the planned year.

The individual elements which make up the planning cycle in a planned year, are budget compilation, comparison of planned and actual data, extrapolations and revised forecasts.

The planning cycle begins with budget compilation, which proceeds in several stages and consists of the elements profit plan, finance plan and budgeted balance sheet. Budget compilation either precedes the planned year or is dealt with at the beginning of the planned business year resp.

Comparisons of planned and actual values are dealt with in the business year – either quarterly or monthly.

In the framework of comparing planned and actual data the planned figures and results are compared to real actual data.

Information gained from the comparison covers only the period which actual data are already available for. A prediction cannot be made, yet on the future development of the enterprise in the planned year. This is only possible in the steps Extrapolation and Revised Forecast after planned and actual data have been compared. Whereas comparison of planned/actual data is oriented towards the past, a future aspect is allowed for. In the framework of extrapolation and revised forecast the future development of the enterprise in the planned year is also examined.

In extrapolation, the actual data that have become real data are linked with originally planned data for the remaining period of the business year. Extrapolation provides a static review of the business year, the same as in comparison of planned/actual data, because no new information or considerations about the future development of the enterprise during the planned year have been incorporated.

A special planning aspect results again from a revised forecast only after the extrapolation. When planned data have been supplemented by available actual data in the extrapolation they are incorporated into the revised forecast for the remaining part of the currently planned year. This step results in a revised forecast with all items carried forward, based on the original budget, supplemented by all available actual figures, revised according to the latest information and expectations on the future development of the enterprise in the planned year.

The described planning cycle with budget compilation, comparison of planned/actual data, extrapolation and revised forecast is repeated quarterly or monthly in a planned year or in case of an unusual event which makes a revision of the original budget necessary.

The detailed process of the individual stages of this planning cycle will be described in the next articles of the series Budgeting and Controlling.

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