

BUDGETING AND CONTROLLING (PART 17): THE PLANNING CYCLE, STEP 1: BUDGET COMPILATION



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In the last article of the series Budgeting and Controlling an overview of the planning cycle of an enterprise was given. This planning cycle is divided into the following parts:

- Step 1: Budget compilation
- Step 2: Comparison of planned and actual data
- Step 3: Extrapolation
- Step 4: Revised forecast

The current article deals with step 1, budget compilation.

The contents of a complete budget of an enterprise and the process of compiling it has already been covered in the series Budgeting and Controlling.

After dealing with some technical components and their application this article covers some aspects of budget compilation that refer to its set-up and structure such as the date of compilation, the structure and details as well as sources and information to prepare it.

Concerning the date there are two different aspects for budget compilation, both have advantages and disadvantages. The date for the compilation is either preceding the planned business year or it takes place during it.

The main advantage of budget compilation at a preceding date is that a complete plan is already available at the beginning of the respective business year.

The main advantage of budget compilation during the planned business year, actually at its beginning, is, in an ideal case, availability of all figures, data and facts of the directly preceding business year, which forms a basis and orientation for the planning.

The structure of the budget is oriented towards the conclusions which are to be gained from the budget on the one hand, and from the details and structures of the sources available for the preparation of the budget on the other hand. It can, however, be decisive for structuring it, in what form the structure of the actual data will be available for the comparison of planned and actual data. The source of actual data should already be considered when structuring the budget.

The available sources for preparing the budget compilation are of considerable influence for the structure and set-up of the budget but furthermore on its figures, if the sources are taken as a reference and orientation for concrete planning.

Sources that are used as a basis for budget compilation can be eg balance sheets, profit and loss accounts, lists of account balances, payroll information, statistics on sales, use of goods and contribution margin, production statistics and calculations, loan contracts, redemption plans and investment schedules.

The main basis should be the figures of the lists of account balances, the balance sheet and the profit and loss account. Deviations will occur when certain information on the enterprise will be of greater significance when they are provided in more detail, or in a different structure, or if the source of actual data is different or structured in a different format than from the lists of account balances.

If the data are from different sources (lists of account balances, sales statistics, payroll etc) a cross reference must be carried out to avoid any deviation because of differing sources.

A deviating structure from the lists of account balances and/or profit and loss account is crucial for the profit plan mainly, and less so for the finance plan and the budgeted balance sheet, as the structure of the balance sheet is fixed and normally the structure for the finance plan will be selected from an available range of standardised finance plans.

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