

# BUDGETING AND CONTROLLING (PART 18): THE PLANNING CYCLE: SOURCES FOR BUDGET COMPILATION



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**In the two previous articles of the series Budgeting and Controlling at first only an overview of the planning cycle of an enterprise was presented (unternehmen 3-2003), then the first step of a typical planning cycle, budget compilation, was regarded in more detail (unternehmen 1-2004)**

In this article the sources that are used in budget compilation or its preparation shall be regarded more closely.

As determination of the profit plan is the first step of budget compilation, it is crucial to receive the information that forms the structure of the budget and refers to the profit part of the enterprise which means the current profit and loss account as well as current lists of account balances.

Structuring the profit plan begins with sequencing it according to individual expense and income types. In this step the structure of the profit and loss account or the lists of account balances resp have been adhered to regularly. Deviations of this structure of the profit plan according to expense and income types in the profit and loss account or lists of account balances occur when planning sales, use of goods or expenses for personnel.

In the framework of planning sales, variable cost and contribution margins deviations from the structure of profit and loss account or the lists of account balances occur above all when detailed planning based on products or profit centres shall be carried out. In this case the structure normally adheres to information from statistics of sales and contribution margins, purchasing and production. Planning of use of goods is normally undertaken together with planning of sales.

In planning expenses for staff, a deviation often occurs from the structure of profit and loss account or the lists of account balances. For this area the planning according to expense per employee is often undertaken. Wages or salaries resp, inclusive of all non-wage labour costs are frequently planned per each employee. The data basis for planning per employee represents the sources for the payroll.

As described above, the profit plan is often adapted according to the entrepreneurial needs. These adaptations require additional updating of sources such as special statistics of sales and contribution margin in order to present the required information on the enterprise.

All information from various sources must be compared permanently to the figures of profit and loss account or the lists of account balances resp, while compiling the budget as well as during comparison of planned and actual data in the business year.

After the profit plan, finance and liquidity are planned, structured and determined in the next step.

As in determination of profit plan, various structures and methods of calculation are used in the finance plan. They are mainly differentiated by the sequence of their different planning items in the finance plan, less so by the differing demands on the basic data or the source of information.

The possibility for own design is limited in the framework of compiling a balance sheet or a budgeted balance sheet resp. In the process of compiling finance plan and budgeted balance sheet, normally no great effects result from the design of the information to be used.

In the short - term sector of finance and liquidity planning, for the planning of receivables and liabilities, all information should be as detailed as possible; this refers to time allowed for payment of customers and own habits of paying suppliers.

For planning stock, information from statistics of purchasing, sales and production are taken into account. Planning in the long-term sector is based on loan contracts, redemption plans and investment schedules eg.

A compiled plan based on the above mentioned data, ideally on a monthly basis, allows the presentation of the planned economic development of the enterprise in the planned year. In addition, monthly structured planning, facilitates comparison of planned/actual data, extrapolations and revised forecasts. They will be described in the following articles of the series Budgeting and Controlling.

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