

BUDGETING AND CONTROLLING (PART 20): THE PLANNING CYCLE, STEP 3: EXTRAPOLATION



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The typical planning cycle of an enterprise shows the following steps:

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

Budget compilation and comparison of planned/actual data were covered in the previous articles of the series Budgeting and Controlling. This article deals with step 3, extrapolation.

Extrapolation builds on the figures of budget compilation and supplements them by the values that were taken into account in the framework of comparison of planned/actual data.

Whereas the comparison of planned/actual data is merely a comparison to the actual data that have become real and no future aspects have been considered, extrapolation also regards the future part of the planned year.

In extrapolation, based on the original budget, planned values are replaced by available actual data at the date of comparison of planned/actual data. All other figures for the rest of the planned year remain as they were planned in the original budget.

In this way, supplementing the pure comparison of planned/actual data, the effect of the real, actual values on the results of the whole planned year can be estimated under the assumption that the remaining business year develops as planned in the original budget.

Expected developments and current information for the further part of the planned year remain completely unconsidered in extrapolation. The budget is not revised in extrapolation. In so far, extrapolation is a pure static element in the planning cycle, similar to comparison of planned/actual data.

So it is merely a mathematical extrapolation without considering new aspects of planning where originally planned figures have been corrected by available actual data.

The last article of the series Budgeting and Controlling (unternehmen 3-2004) has already covered the structure of budget compilation, comparison of planned/actual data, and deviation analysis. In extrapolation this structure is expanded by the future aspect. The period for which no actual data are available, originally planned data are filled into extrapolation.

In the following step, in the revised forecast, the extrapolation is expanded by an active revision of the figures of the remaining business year.

Like that, extrapolation only presents a sub-step in the planning cycle in order to be able to carry out the revised forecast; similar to the budget all planned items are revised.

Whereas comparison of planned/actual data is often determined monthly, extrapolation as well as revised forecast are mostly carried out quarterly.

The final fourth step in the framework of the planning cycle, determination of a revised forecast will be dealt with in the following article of the series Budgeting and Controlling.

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BUDGET COMPILATION, COMPARISON OF PLANNED/ACTUAL DATA AND EXTRAPOLATION.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Budget compilation	Plan	Plan	Plan	Plan
Actual values	Actual			
Comparison of planned/actual data	Comparison			
Deviation analysis	Analysis			
Extrapolation	Actual	Plan	Plan	Plan